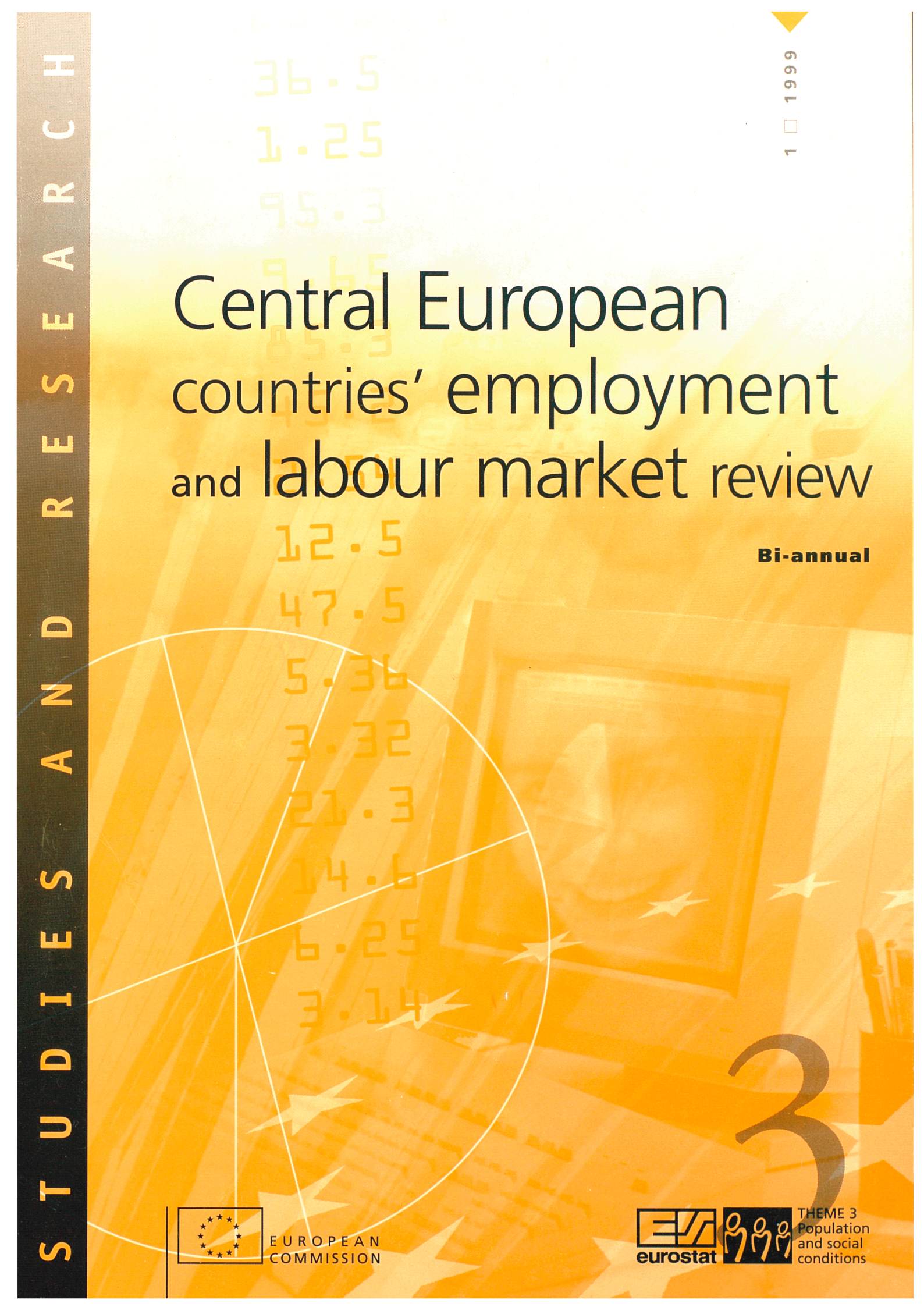
STUDIES AND RESEARCH

1 □ 1999

Central European countries' employment and labour market review

Bi-annual



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A great deal of additional information on the European Union is available on the Internet.
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Foreword

The changes that have taken place in the countries of Central Europe, and the transition of their economies along market led principles have brought about the opening of their economies, rapidly increasing external trade flows as well as strong economic growth in many dynamic regions. On the other hand the inevitable closure of obsolete production units and investment in modernisation resulted in massive lay-offs of employees which could not yet be compensated by the growth of emerging industries.

As a result of this process unemployment increased sharply in most Central European Countries and turned into a major challenge for economic and political decision makers. At the same time the public opinion became more and more sensitive about problems relating to the labour market, which led to an ever-increasing demand for comprehensive, comparable and timely data.

The Luxembourg Council of December 1997 approved the proposals of the Commission set out in the Agenda 2000 documents relating to the enlargement process of the European Union. In this context social stability as well as the reintegration of unemployed persons into the labour market were recognised as important prerequisites for the success of the reinforced pre-accession strategy in Central European Countries.

It was against this background that Directorate-General IA and Eurostat took the decision to produce a regular half-yearly employment and labour market review that is prepared in close cooperation between Eurostat and the Statistical Offices of Central European Countries. Its main objective is to provide enterprises, policy makers, researchers and the general public with a regular reference publication which includes the most recent available data, country profiles, thematic articles on selected topics as well as methodological information. The necessary funding was made available through the Phare Multi-Country Programme for statistical cooperation.

In order to achieve maximum availability the CEC Employment and Labour Market Review is distributed free of charge and will be available not only on paper, but also in electronic form.

We would like to express our sincere thanks to all our partners in the Central European Countries for their contributions. It was their continuous commitment to our common objectives, which made this publication possible.

G. Burghardt
Director General
Directorate-General IA

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Director General
Eurostat

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Executive Summary

The application for membership of ten Central European Countries presents the Union with a challenge far greater than ever before. Now that the enlargement process has been launched and the first negotiations took place, the attention focuses on the enormous efforts that will have to be undertaken in order to achieve a smooth integration of the countries concerned into existing EU programmes and structures.

In these circumstances the demand for comprehensive statistical information is particularly strong in sensitive areas like the labour market, whose developments have a direct impact on the every-day life of millions of families in both EU Member States and Central European Countries.

In order to satisfy that demand, this first number of the CEC Employment and Labour Market Review provides a broad overview of the available data and information which will serve as a basis for the regular monitoring of the latest trends in employment and the labour markets in Central Europe. Detailed country profiles provide background information on the economic and social developments since the beginning of the transition process in each of the twelve countries covered. This information is complemented by a trans-national comparison which highlights the most important differences and common trends between the countries of the region. In addition, a special article on methodological issues presents the current data availability and explains the differences between various definitions of registered and LFS unemployment rates. Finally, a set of detailed statistical tables, including methodological notes, shows the development of key indicators from 1993 to 1998.

Central Europe is a heterogeneous region, in political as well as in economic terms: Slovenia and the Czech Republic, with GDP per capita (in purchasing power standards 1997) at around 68% and 64% of the EU average, are already coming close to the level of some less prosperous EU Member States. Next in the ranking are Hungary and Slovakia (49% and 46%), followed by Poland, and Estonia (37% each). On the other hand there is a gap compared with Bulgaria (23% of the EU average), Latvia (27%), Romania and Lithuania (about 30% each).

Not only the level of economic development, but also the recent performance has been quite different between the countries of the region. In 1998 most Central European Countries experienced a slowdown in economic growth. There were, however, notable exceptions like Hungary, which has largely overcome its external and internal imbalances and recorded the highest GDP growth since the start of the transition, and Bulgaria, whose economy resumed growth after two years of sharp output cuts. Though slowing down, economic growth rates remained relatively high In Poland, Slovakia, Estonia and Latvia. Slovenia followed its moderate but steady growth path. The Czech Republic and Romania were adversely affected by problems on their financial markets and experienced significant falls in output.

Rapid de-industrialization

Since the start of the transition, the CECs have been undergoing a rapid de-industrialization and in most countries also a process of de-agrarization, while employment in services expanded at least in relative terms. However, in some countries, in particular in Romania, employment in agriculture grew steadily over the entire transition period, due to lacking jobs in other sectors. In Poland, the proportion of those employed in agriculture remained at a high level (LFS: 19%; employment register: about 26%). Having experienced drastic declines over the entire 1990-97 period, the share of agricultural employment has been gradually adjusting to EU standards in Estonia, Hungary, the Czech Republic, Slovakia and Slovenia.

Employment in industry has declined in all countries since 1989, reflecting the high over-employment prevailing under the previous system. Over the 1990-97 period, employment in industry dropped by over 6 million persons or almost one third in the CECs. Bulgaria, Lithuania and Romania were hardest hit by employment cuts in industry, by 35 to almost 50%. In 1997 the proportion of industry in total employment was still close to 40% in the Czech Republic, Slovakia and in Slovenia.

In most countries, except Hungary and Romania, services sector employment gained momentum starting from 1993 onwards. It grew most markedly in the Czech Republic, Bulgaria, Lithuania, Poland and Slovakia. In 1997 the services sector accounted for the largest share of total employment in all countries except in Romania and very likely also in Albania. Hungary, where the development of the services sector started already in the late 1980s, reports the highest level of services sector employment among the CECs, followed by Estonia, Latvia and Slovakia.

Starting from a level of less than 10% of total employment in almost all transition countries (with the exception of Hungary and Poland) in 1990, the private sectors share reached almost 70% in Poland, Latvia and Lithuania in 1998, slightly over 60% in the Czech Republic and Slovakia, and more than 50% in Bulgaria, Romania and Slovenia. In all countries, except the Czech Republic, agriculture accounts for the highest share of private employment.

Working-age population increases

The share of working-age population (15 to 64 years) has been on the increase in all countries since 1993 – except in Lithuania, where it was stationary. In most of the countries this age group accounts for roughly two thirds of the total population. All countries report an increasing share of people older than 65, the proportion of which is highest in Bulgaria,

followed by the Czech Republic, Hungary and Estonia. In accordance with the increasing shares of the productive and post-productive age groups, the share of young people up to the age of 14 years has been on the decline. A comparison between the transition countries and the EU-15 for 1996 shows that despite considerable falls in the initial period of transition, participation rates in most countries are still higher than the EU average (67.7%). Lower rates were reported only for Bulgaria, the FYR of Macedonia and Poland. Hungary's participation rate was equal to the EU average.

Low employment growth in 1998

Employment in Central and Eastern Europe grew only slightly in 1998. Available data indicate employment increases for four countries, most markedly in the FYR of Macedonia, which started from a very low level. Poland's employment growth since 1995 was sustained but was significantly lower than the GDP growth achieved during this period. Lithuania was the only Baltic state to report a rise in employment. Hungary recorded the first employment increase since the start of the transition. In the other countries employment stagnated or declined further. The Czech Republic experienced an employment fall for the second year in a row. Despite a notable output rise, employment in Slovakia decreased after two years of recovery. In Romania the sharp output declines in both 1997 and 1998 were accompanied by only slight job losses. The resumption of economic growth in Bulgaria could not prevent total employment from falling further; Bulgaria reported the highest employment reduction among the CECs in 1998. In Estonia the resumption of output growth was not reflected in rising employment; on the contrary, total employment has been on the decrease since the start of the transition. Latvia, which recorded an employment increase in 1997 for the first time since 1991, experienced a slight fall in 1998.

Unemployment rates show differing trends

A comparison of the unemployment rates for 1997 and 1998 shows differing trends. The most remarkable developments were the fall in Poland (from 11.5% in 1997 to 10.6% in 1998) and the rise in the Czech Republic (from 4.8% to 6.5%). In 1998 the average LFS unemployment rate in the whole region was 12.7% (excluding Albania where no recent data were available, and the FYR of Macedonia with the extreme value of 36% in 1997). Romania and the Czech Republic reported the lowest unemployment rates (about 6%) in the region. However, the Czech miracle of low unemployment seems to have come to an end, especially in the light of the current annual increase of registered unemployed by 44% for two consecutive years. Single-digit annual unemployment rates were also observed in Hungary (7.8%) and Slovenia (7.9%) in 1998. Unemployment rates were at double-digit levels in Bulgaria, the Baltic countries, Slovakia and Poland.

The average registered unemployment rate in the region (excluding Albania and the FYR of Macedonia) in 1998 was 12.1%. Registered unemployment rates are traditionally low in the Czech Republic and the Baltic states. Disregarding the extreme in the FYR of Macedonia (34.5% in 1998), the highest registered rates in 1998 were found in Slovakia, followed by Slovenia and Bulgaria.

Registered unemployment rates reflect, to an extent, the legal and institutional conditions in a given country, such as, for example, the eligibility conditions for registration and for the provision of unemployment benefits. On the other hand, the LFS unemployment rate is defined according to a common standard. The latter is believed to be a better unemployment measure, capturing the economic substance of unemployment (for more details, see the special article dedicated to statistics in this bulletin). The difference between the two unemployment measures can be viewed as an indicator of the generosity of the unemployment benefits system. Registered unemployment tends to exceed the LFS one where the benefit provisions for unemployed are relatively generous, thus inducing people to register themselves. Disincentive effects for employment provided by social security systems are believed to be high in some of the CECs, notably in the Czech Republic, Slovakia, Poland, Hungary and Slovenia.

Youth and female unemployment above average

In most countries the unemployment rate for women is higher than for men (and higher than the average rate). However, in Hungary the female unemployment rate has been significantly lower than the male rate over the entire 1993-98 period. Also the Estonian LFS data suggest a lower female rate, which is mainly resulting from pushing women out of the labour force rather than into unemployment. Apart from the extremely high value (almost 38%) in the FYR of Macedonia, in 1998 the highest female unemployment rates were reported for Bulgaria and Latvia (14-16%), while they were relatively modest in the Czech Republic and Slovenia (about 8%).

In all countries of the region, the LFS unemployment rate among people younger than 25 years is higher than the total one. The average value for the region exceeds 25% (excluding the extreme of more than 70%, which occurred in the FYR of Macedonia in 1997). In Bulgaria the rate is close to 40%, indicating a quite critical situation of young people on the Bulgarian labour market.

Long-term unemployment is a problem that can be found also in many developed economies. Across the region long-term unemployment presents a rather uneven picture. The FYR of Macedonia represents the extreme with an 83% share of long-term unemployment. Slovenia and Bulgaria rank second with about 57% shares. By far the lowest value can be found in Lithuania, with a 12% share in the total unemployed, and in the Czech Republic (27% in 1998).

A Few Notes on the Materials Used

This report was prepared by the Austrian Institute for Regional Studies and Spatial Planning (OIR) in cooperation with the Vienna Institute for International Economic Studies (WIIW) and the Slovakian Academy of Sciences and accorded with Eurostat. The report is based on the most significant data collected by Eurostat within the scope of the technical cooperation with the Phare and Tacis countries. For this purpose the aggregate data on population, employment and unemployment are sent by the statistical offices of the ten Accession Countries as well as Albania and FYROM to Eurostat via CESD Communautaire once a year. Some of the countries have sent data - similar to the way EU Member States send microdata - out of the LFS to Eurostat in the recent past. As these data are neither available as time-series, nor for all countries, they have only been interpreted in the country reports and have been excluded from the statistical annex. In order to achieve a more or less consistent coverage regarding the annual and quarterly data on employment and unemployment, as well as some data on gender-specific and age-specific unemployment, the CESD Communautaire conducted an additional survey on short notice. Although a great step forward has been achieved in building up a comprehensive base of comparable data on employment and unemployment, we must still point out a few of the gaps and deficiencies, which have not been solved within the extremely short period of work available i.e. a period of four months.

For this reason it was not possible to organise the complete data into subgroups according to gender (especially in absolute figures). Up until now the population of working age has been defined as ‚older than 15', or has been based on some other nonstandardised age groups in some countries. A first attempt at standardisation (15 to 64 years) was therefore not very successful in respect to both the gender-specific differentiation and the time-series or it was calculated using other sources (population statistics). Unemployment and employment data are available only in part grouped by men and women. Employment rates were calculated for the first time for these countries based the population between 15 and 64 years of age. Employment data in some countries (Hungary, Poland, Slovenia from 1993 through 1996) do not refer to total employment, but rather to employees. The data on the long-term unemployed is very incomplete, there are no absolute figures or unemployment rates.

Most data contained in the statistical annex are therefore from the Eurostat databases. Supplements, which were, prepared with the help of the WIIW and the national statistical offices following a joint workshop in Vienna in May 1999 are indicated by italics.

Some of the gaps in the statistical annex - especially a further differentiation of the data by gender - will be solved in the short term by the second report that will be published in autumn. The process of preparing this report and forthcoming ones will intensify the cooperation between the national statistical offices and Eurostat and help to establish a continuous transfer of data containing more details than have been sent up to now. The next statistical annex will move one step closer to the regular reports on ‚Employment in Europe' (DG V) regarding comparability and completeness.

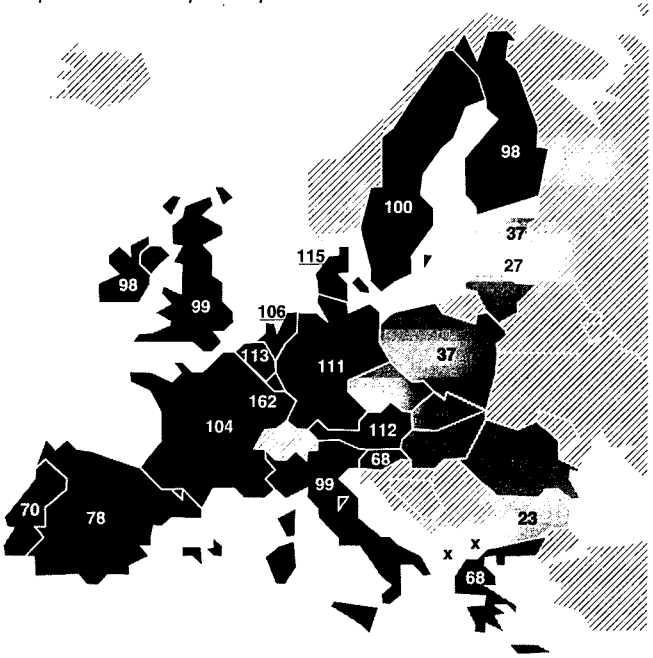
1. Transnational Comparison

Introduction

In 1998 Central European Countries (CECs) experienced a slowdown in economic growth, reflecting partly the growth slowdown in Poland, the biggest country of the region (its GDP measured in PPS is equalling the sum of the GDPs of the Czech Republic, Hungary, Slovakia and Slovenia). Hungary, a notable exception, has overcome its external and internal imbalances to a great extent, following a long period of adjustment; GDP growth was highest in 1998 since the start of the transition. Bulgaria recorded some growth after two years of sharp output cuts. In Poland, Slovakia, Estonia and Latvia economic growth was relatively high, but lower than a year earlier. Slovenia followed its moderate but steady path of growth. The Czech Republic and Romania experienced significant falls in output on the background of heavy financial crises.

GDP per capita measured at purchasing power standards shows that Slovenia, the most advanced transition country, has reached the level of some of the less prosperous EU member states, achieving 68% of the EU average in 1997. Next to Slovenia comes the Czech Republic (64%), Hungary (49%), Slovakia (46%), Poland and Estonia (37% each), while there is a gap compared with Bulgaria (23% of the EU average), Latvia (27%), Romania (31%) and Lithuania (30%).

Map CE 1: *GDP per capita in PPS 1997*



as an index of EU average 1997 EU(15) = 100

- 100 and more
- 75 - 100
- 50 - 75
- 30 - 50
- less than 30
- x no data available

Source: Eurostat

With the exception of the Czech Republic and Slovakia inflation rates diminished in all countries in 1998. Deteriorating trade balances in most of the countries have led to increasing current account deficits. All countries (except Slovenia) were running current account deficits; in Slovakia, Estonia, Lithuania, and Latvia the ratio of the current account deficit to GDP reached critical marks, ranging between 11 and 12%.

Labour market statistics

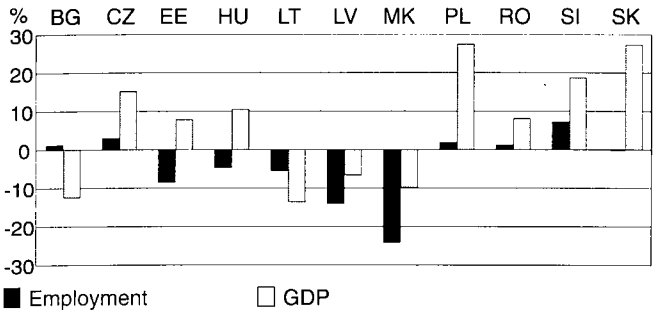
Labour statistics have been steadily improving in most transition countries over recent years. The introduction of Labour Force Surveys in all CECs except Albania was an important step towards transparency, but also comparability of labour market developments among the CECs on the one side and with EU countries on the other side (for a more detailed information on labour market statistics, see separate article in this report). Caution is still warranted in comparing pre- and post-transition employment figures due to considerable conceptual and measurement differences. Available statistics do not provide consistent time series covering the whole transition period — e.g. for total employment, for participation rates, but also for the sectoral composition of employment for most of the countries.

Employment and output growth

Bearing in mind the shortcomings of the available statistics, employment in the CECs and the Baltics dropped by about 15% and 20%, respectively, or altogether by 6.9 million persons between 1989 and 1997. In most countries the cumulative growth of employment was less dynamic than GDP growth in the period 1993 to 1997. Bulgaria, where the fall of GDP was accompanied by a slight increase in employment, and Lithuania, where the employment drop was much smaller than the output decline, were the main exceptions, implying a considerable decline in productivity. On the other hand, productivity gains were most pronounced in Slovakia, Poland, and Hungary.

In 1998 employment in the CECs grew only slightly. Available data indicate employment increases for four countries, most markedly in the FYR of Macedonia, which started from a very low level. Poland's employment growth since 1995 was sustained but was significantly lower than GDP growth achieved during this period. Lithuania was the only Baltic state to report an employment increase. In Hungary, 1998 was the first year since the start of transition to record an employment increase after years of continuous decline. In the other countries employment remained stationary or declined further. In the Czech Republic, following the implementation of austerity measures in mid-1997, total employment fell for the first time since 1993. Following positive employment growth during 1995-96, employment in Slovakia started to decrease again since 1997, despite a notable output rise (This could be an evidence for restructuring). In Romania the sharp output declines in

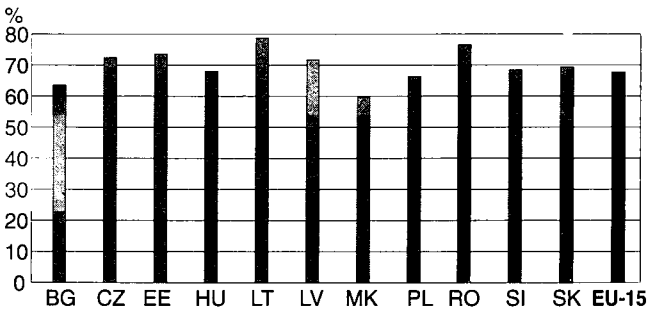
Figure CE 1: *Employment and economic growth, 1994-1997 in %*



Note: Employment data of Lithuania and Romania refer to 1995-1997; data for the Czech Republic and Latvia refer to registered employment; data for the FYR of Macedonia refer to employees

Source: Eurostat, WIIW database incorporating national statistics

Figure CE 2: *Comparison of participation rates between CECs and EU-15 in 1996*



Source: Eurostat, WIIW database incorporating national statistics

both 1997 and 1998 entailed only a slight employment decrease. Here agriculture acts as a buffer against employment losses in industry and construction. The resumption of economic growth in Bulgaria could not prevent total employment from falling further; Bulgaria reported the highest employment reduction among the CECs in 1998. In Estonia the continuation of output growth was not reflected in rising employment; on the contrary, total employment has been on the decrease since the start of the transition. Latvia which recorded an employment increase in 1997 for the first time since 1991, experienced a slight fall in 1998.

Participation rates

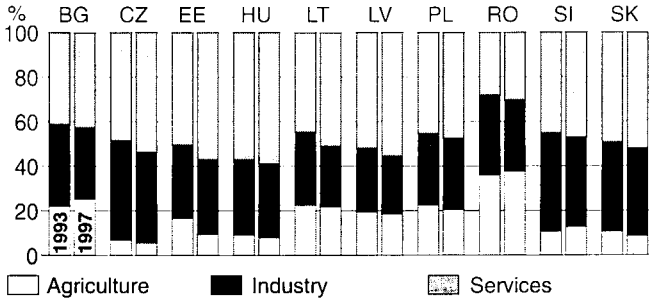
The share of working-age population (15 to 64 years) has been on the increase in all countries since 1993 — except Lithuania, where it remained unchanged; for Albania no data are available. In most of the countries this age group accounts for roughly two thirds of the total population. All countries under consideration report an increasing share of people older than 65, the proportion of which is highest in Bulgaria, followed by the Czech Republic, Hungary and Estonia. In accordance with the increasing shares of the productive and post-productive age groups, the share of young people up to the age of 14 years has been on the decline. The proportion of the pre-productive age group is highest in Albania (33% in 1996), Poland, Slovakia and the FYR of Macedonia (over 20% each), while it accounts only for 17% in Bulgaria and Slovenia. Participation rates available from Labour Force Surveys (based on working-age population 15 years and over) fell in all countries over the 1993 to 1998 period, most pronouncedly in Bulgaria, Hungary and Poland. A comparison between the transition countries and the EU-15 for 1996 shows that despite considerable falls in the initial period of transition, participation rates (based on working-age population 15-64 years) in most countries are still higher than the EU average (67.7%). Lower rates were reported only for Bulgaria, the FYR of Macedonia and Poland. Hungary's participation rate was equal to the EU average.

Employment patterns

Since the start of the transition, the CECs have been undergoing a rapid de-industrialization and in most countries also a process of de-agrarization, while employment in services expanded at least in relative terms. The most outstanding example is Romania, where employment in agriculture amounted close to 40% in 1998 based on LFS; in 1989 it had been 18%. Employment in agriculture also increased considerably in Bulgaria (to 25% of the total) and in Lithuania. This trend is partly attributed to the emergence of numerous small private farm units after the privatization of huge agricultural enterprises, but also to economic hardship that has forced people to return to self-employed farming. In Poland, the proportion of those employed in agriculture is still rather high, LFS data put the share at an average 19% in 1997-98 (from about 23% in 1995), while the share remained stable (at about 26) measured by employment register data. Having experienced drastic declines over the entire 1990-97 period the share of agricultural employment has been gradually adjusting to EU levels in Estonia, Hungary, the Czech Republic, Slovakia and Slovenia.

Employment in industry has declined in all countries since 1989, reflecting the high over-employment prevailing under the previous system. Over the period 1990-97, employment in industry dropped by over 6 million persons or almost one third in the CECs. Bulgaria, Lithuania and Romania were hardest hit by employment cuts in industry, by 35% to almost 50%. In Estonia, Hungary, Slovakia and Slovenia, the cutback was about 30%. The Czech Republic was an exception, with industrial employment declining by about 20% over the entire period. In 1997 the proportion of industry in total employment was still close to 40% in the Czech Republic, Slovakia and in Slovenia.

Figure CE 3: *Change in employment patterns: comparison between 1993 and 1997*



Note: EE, HU, PL, SI, SK according to LFS data; BG, CZ, LT, LV, RO according to registered employment

Source: Eurostat, WIIW database incorporating national statistics

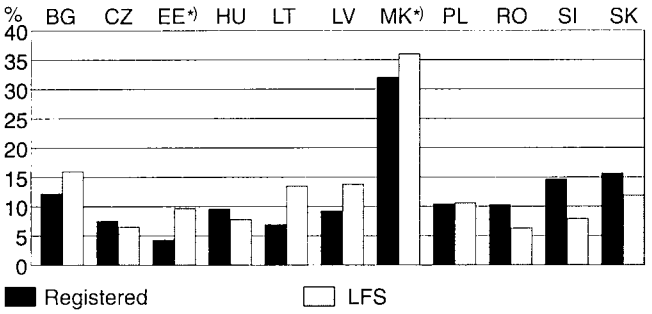
In most countries, except Hungary and Romania, the services sector employment gained momentum starting from 1993 onwards. It grew most markedly in the Czech Republic, Bulgaria, Lithuania, Poland and Slovakia. In 1997 the services sector accounted for the largest share of total employment in all countries except Romania and very likely also Albania. Despite a high increase in relative terms, also Bulgaria shows an underdeveloped services sector (slightly over 40% in total employment). Hungary, where the development of the services sector started already in the late 1980s, reports the highest level of services sector employment among the CECs, followed by Estonia, Latvia and Slovakia.

In the course of privatization, but also due to the establishment of new firms, employment in the private sector grew considerably during the transition. However, a comparison of private sector shares in employment is rather difficult because of different definitions of the public sector across countries. Starting from a level of less than 10% of total employment in almost all transition countries (with the exception of Hungary, Poland and Slovenia) in 1990, the private sectors share reached almost 70% in Poland, Latvia and Lithuania in 1998, slightly over 60% in the Czech Republic and Slovakia, and more than 50% in Bulgaria, Romania and Slovenia. In all countries, except the Czech Republic, agriculture accounts for the highest share of private employment.

Unemployment

According to labour force survey (LFS) data, in most of the CECs, the unemployment rates started to decline in 1993 or 1994. In Hungary and Poland the rates were declining persistently until 1998, when they stood at 7.8% in Hungary (from 11.9% in 1993) and 10.6% in Poland. In the latter country an impressive reduction of about 6 percentage points was achieved between 1993 and 1998. The same positive tendency towards a sustained reduction of unemployment rate occurred in Latvia and Lithuania, although in these two Baltic states the current unemployment rates are still at double-digit levels. In Latvia the unemployment rate in 1998 was down to about 14% (from 19% in 1995). Lithuania has achieved 13.5% in 1998, as compared to 17.4% in 1994. The third Baltic country, Estonia, showed slight fluctuations around the level of 10%. In Albania the unemployment rate declined from 22% in 1993 to about 18% in 1998.

Figure CE 4: *Unemployment rate according to LFS and registration data in 1998, in %*



*) 1997

Source: Eurostat, WIIW database incorporating national statistics

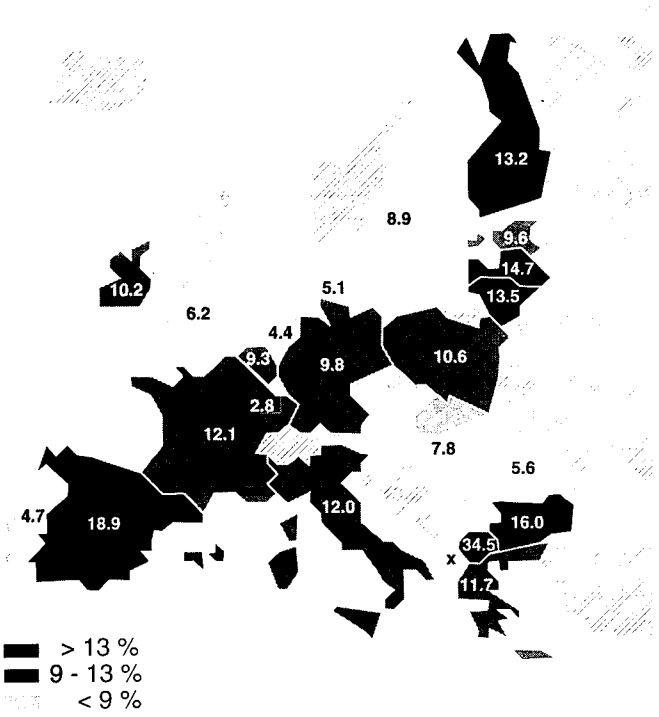
The other countries of the region also experienced an initial decline of LFS unemployment rates, starting in 1993 or 1994. However, in this group the decline was reversed in the course of the past two years. The critical year was usually 1997, when reversals in the declining LFS unemployment rate occurred in Bulgaria (from 13.7% of 1996 to 15%), the Czech Republic (from 3.9% to 4.8%), the FYR of Macedonia (from 31.9% to 36%) and in Slovakia (from 11.1% to 11.6%). Romania experienced a slight increase to more than 6% unemployment rate towards the end of the period. Another slight increase occurred in Slovenia, from about 7 to about 8% in 1998.

Thus in 1998 the average LFS unemployment rate in the whole region was 12.7% (excluding Albania where no LFS data were available, and the FYR of Macedonia with the extreme value of 36% in 1997). Romania and the Czech Republic reported the lowest unemployment rates in the region. However, the Czech miracle of low unemployment seems to have come to an end, especially in the light of the current annual increase of registered unemployed by 44% for two consecutive years. Single-digit annual unemployment rates for 1998 were also observed in, Hungary (7.8%) and Slovenia (7.9%). As mentioned above, unemployment rates were at double-digit levels in Bulgaria, the Baltic countries, Slovakia and Poland.

Unemployment rates according to different sources

Registered unemployment rates reflect, to a certain extent, legal and institutional conditions in a given country, such as, for example, the eligibility conditions for registration and for the provision of unemployment benefits. On the other hand, the LFS unemployment rate

Map CE 2: *Unemployment rate 1998 (LFS)*



Ireland = 1997
Estonia, Latvia, Romania, Slovenia = 2nd quarter 1998
LFS = Labour Force Survey

Source: Eurostat

is defined according to a common standard. The latter is considered a better unemployment measure, capturing the economic substance of unemployment (for more details, see the special article dedicated to statistics in this report). The difference between the two unemployment measures can be viewed as an indicator of the generosity of the unemployment benefit system. Registered unemployment is higher than the LFS one where the benefit provisions for unemployed are relatively generous, thus inducing people to register themselves. Disincentive effects for employment provided by social security systems are believed to be high in some of the CECs, notably in the Czech Republic, Slovakia, Poland, Hungary and Slovenia.

Among these countries the registered unemployment rate tends clearly to be higher than the LFS one. The largest discrepancy occurred in 1998 in Slovenia, where the registered unemployment rate was by almost 7 percentage points higher than the LFS rate. Also Romania (having a comprehensive social security system for unemployed) shows a similar pattern, with the registered unemployment rate being 4 percentage points higher than the LFS rate.

In the other CECs the LFS unemployment rate is higher than the registered one. This situation is typical for the Baltic states, where the level of social security provided to unemployed is relatively low. For example, Estonian LFS of 1997 indicates that only 39 per cent of all the unemployed registered themselves with the state employment offices. Furthermore, the unemployed in Estonia are de-registered after 12 months, when they lose the entitlement to unemployment insurance benefits. In the FYR of Macedonia in 1997 the LFS unemployment rate exceeded the registered one by 5 percentage points.

Average registered unemployment rates in the region (excluding Albania and in the FYR of Macedonia) in 1998 was 12.1%, as compared to the 12.7% average of LFS-rates. Registered unemployment rates are traditionally low in the Czech Republic and Baltic states. Disregarding the extreme of the FYR of Macedonia (36% in 1997), the highest registered rates were in 1998 found in Slovakia, followed by Slovenia and Bulgaria.

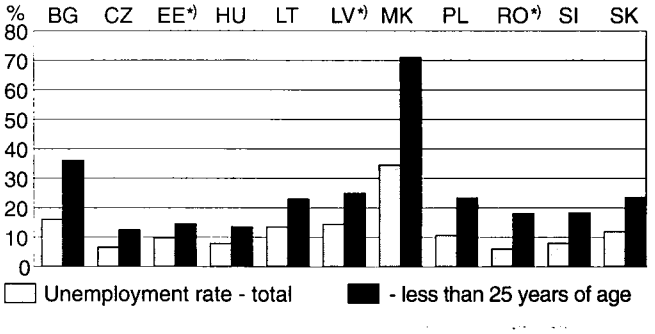
Unemployment by gender

According to available statistics (there are no data for Lithuania; time series are incomplete) the unemployment rate for women is in most countries higher than for men (and higher than the average rate). However, in Hungary the female unemployment rate has been significantly lower than the male rate over the entire 1993-98 period. Also the Estonian LFS data suggest a lower female rate, which is mainly resulting from pushing women out of the labour force rather than into unemployment. Similar conclusions can be drawn from the Albanian registered unemployment figures. Apart from the extreme value of almost 38% in the FYR of Macedonia, in 1998 the highest female unemployment rates were reported for Bulgaria and Latvia (14-16%), while they were relatively modest in the Czech Republic and Slovenia (about 8%).

Unemployment of young people

In all countries of the region the LFS unemployment rate among people younger than 25 years is higher than the total one. The average value for the region exceeds 25%

Figure CE 5: *Unemployment rate of young people in 1998, in %*



*) 1997

Source: Eurostat, WIIW database incorporating national statistics

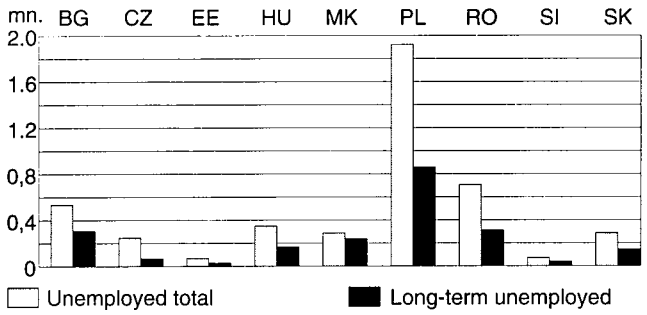
(excluding the extreme of more than 70%, which occurred in the FYR of Macedonia in 1997). In Bulgaria the rate is close to 40%, indicating a quite critical situation of young people on the Bulgarian labour market. The rates are also relatively high in Slovakia and Poland, exceeding 20%. Comparable to these are also the rates in Latvia and Lithuania. The lowest values of about 10% can be found in the Czech Republic, Hungary and Estonia.

Long-term unemployment

Long-term unemployment is a problem that can be found also in many developed economies. In the transition economies there are certain common features characterizing long-term unemployment. In most countries, labour market dynamics tend to be weak and show relatively small outflows from unemployment to jobs, as compared to inflows into unemployment. The structure of long-term unemployment tends to be biased towards workers with low skills and education.

Across the region long-term unemployment presents a rather uneven picture. The FYR of Macedonia represents the extreme with the share of long-term unemployed accounting for 83% of the total. Slovenia and Bulgaria rank second with about 57%. By far the lowest values can be found Lithuania with a 12% share in total unemployment and in the Czech Republic (27%).

Figure CE 6: *Long-term unemployment in 1997*



Source: Eurostat, WIIW database incorporating national statistics

2. Labour Market Statistics - Definitions and Methods

International measurements of employment and unemployment

Labour market development is considered one of the most important features of socio-economic development. The European Commission has been monitoring and investigating the development of employment and unemployment trends in the EU Member States on a regular basis[1]. International standards of measurement for the different labour market variables have been developed on the basis of the world-wide recognised recommendations issued by the ILO and the ICLS: The EU Labour Force Survey (LFS) is conducted under a Council Regulation[2] which specifies the general methodology to be followed by the Member States.

Labour force survey

The LFS is a statistical instrument applied in all EU Member States and for the past few years has also been used in most of the CEC. It provides harmonised data on a comparable basis. The purpose is to find an approximation of the methods used especially regarding:

- the use of the same definitions for all countries,
- the use of common classifications (e.g. NACE for economic activities),
- the progress in the synchronisation of the survey in spring,
- standardisation in data processing.

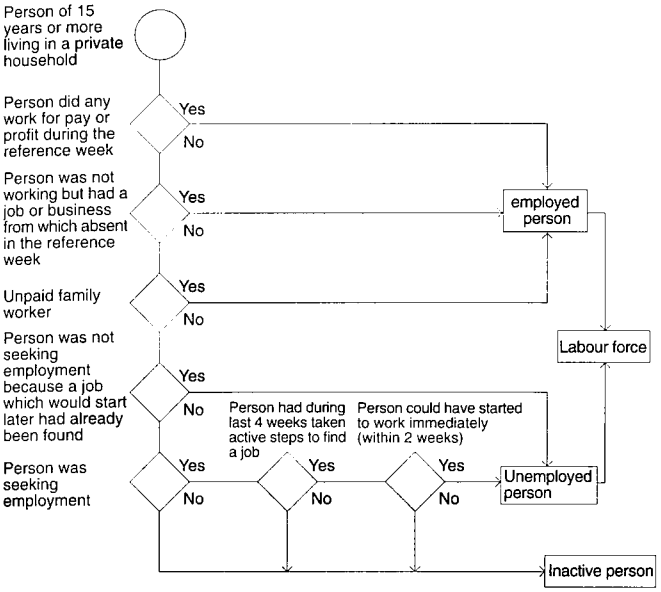
The method used by the LFS

The definitions used by the LFS divide the population of working age (presently: all persons of 15 years and older) into three mutually exclusive and exhaustive categories, which are defined as follows:

- The category 'employed' comprises all persons above 15 years who were during a specified short period in the following categories: 'paid employment' (i.e. either 'at work'[3] or with a job but not at work'[4]) or 'self-employment' (i.e. either 'at work' or 'with an enterprise but not at work').
- The category 'unemployed' comprises all persons above 15 years who were during the reference period either 'without work'[5], 'currently available for work'[6] or 'seeking work'.[7]
- The category 'inactive' comprises persons who do not fall into either one of these categories. Any further breakdown of this group is often limited to pupils and students. Conscripts on compulsory military or civil service are excluded from the compilation of the survey results.

Employed and unemployed persons form the labour force. The unemployment rate shows the unemployed as a percentage of the labour force. The employment rate represents persons who are employed as a percentage of the working age population. The activity rate represents the labour force as a percentage of the working age population.

Chart CE 1: *Labour force classification in the European Union LFS*



Source: Eurostat, The European Union Labour Force Survey - Methods and Definitions, Luxembourg, Brussels 1996

LFS data are based on household surveys done by questionnaire. The technical aspects of the survey, such as the list of questions, the common coding of the replies and the principal definitions to be applied, are set by the Employment Statistics Working Party (consisting of representatives of the national statistical offices, employment ministries and Eurostat). The national statistical institutes are responsible for selecting the samples, preparing the questionnaires, conducting the interviews and forwarding the results to Eurostat, where the results are checked for errors, processed and disseminated.

However, the definitions of employment, unemployment and methods of data collection are under constant review. A few issues dominate the discussion:

- The definition of the population of working age: Due to retirement ages differing between the countries, the active population often is calculated as the population of 15+. Of course, the picture gets distorted by the distribution of the age groups and by different retirement schemes. Thus an adjustment of the definition of the working age population to the 15 to 64 years age group is desirable to comply with international statistics (especially with OECD statistics).
- The classification of certain borderline categories of the employed and the unemployed.
- The distinction between LFS, i.e., survey unemployment and registered unemployment.
- The proper interpretation of unemployment as an indicator of the overall employment situation.

Labour Market Statistics in CECs[8]

Most centrally-planned economies were characterised by full-employment coupled with hidden unemployment, as unemployment did not exist by definition. Consequently, data on unemployment were not collected and the terms 'labour force' and 'economically active population' were never used in official publications.

Since the beginning of the 1990s, the ILO's recommendations have also been followed by the transition countries, which have tried to develop a system of statistics on employment and unemployment that can be compared internationally. LFSs are conducted in all countries covered in this report except for Albania. The quality of the results depends mainly on the following factors:

Technique of interviews: Standardised interviewing ensures comparable results. Thus interviewers need substantial training in order to achieve neutral communication. However, only a few countries provide substantial training and control their performance.

Codification: There are standard classifications for the economic activities of enterprises (NACE), occupation (ISCO-88) and educational attainment (ISCED). Whereas the first and second are classified according to national (but compatible) classifications and are available in nearly all CEC, only a few countries use ISCED.

Measurement: Usually a question is posed about being employed followed by a question on having a job while temporarily being absent from work. The method sometimes identifies unpaid family workers, casual workers, persons on maternity or child care leave, but definitely not in all cases. The thresholds in the definitions of the periods of paid leave vary from country to country and are even missing in some. Thus, the design of the questions on employment and unemployment has not yet been harmonised with Eurostat.

Weighting is a necessary procedure for providing representative results for population subgroups such as gender and age categories. Due to sampling procedures, a sufficient validity of the results can usually only be guaranteed at a higher level of regional aggregation (for larger areas). The methodical approaches differ among the countries. Most countries use a post-stratification method by gender, age and region, same countries are taking into account the unequal sampling probabilities of households or use an adjustment for non-response.

Dissemination of results: Results of the quarterly surveys are usually available within three months (plus a half) after data collection. The results of less frequent sub-annual surveys are available after a delay of 4 to 6 months, whereas annual surveys often take more than a year till publication.

Differences in the sources of unemployment data: In principle, two types of unemployment measurements exist: administrative records (i.e. registered unemployment) and LFS data. The first refers to data collected by institutions providing unemployment compensations, the latter are

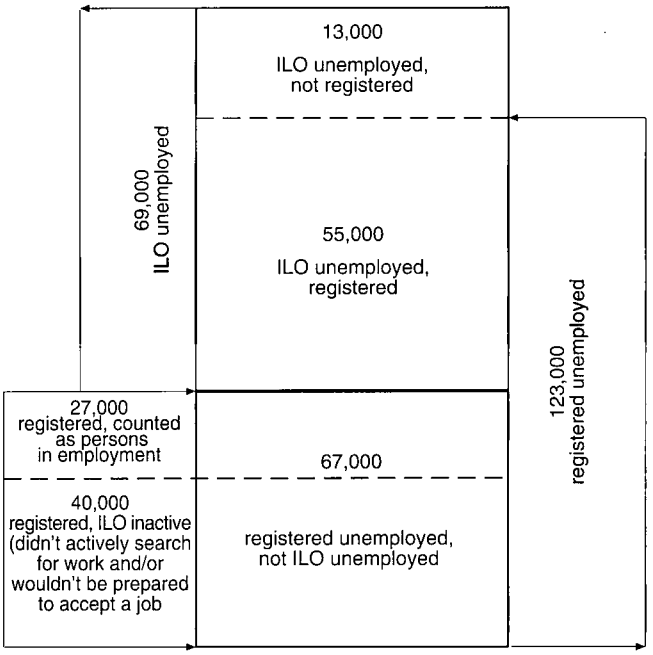
based on household surveys. The sources of employment data are employment statistics and the LFS. Since employment and unemployment statistics vary largely among the transition countries, LFSs are the only comparable bases for monitoring the labour markets. Furthermore, the household samples have been designed to represent nearly the entire population, including unpaid family workers, job seekers without prior work experience and unemployed persons who have exhausted their entitlement to unemployment compensation. The implementation of LFS in CEC has greatly improved the quality of the data.

However, there are also some shortcomings in this methodology: LFS criteria do not take account of any institutional or legal provisions, such as the receipt of unemployment benefits or the registration with labour market offices or similar institutions. LFS categories refer only to a person's particular activities during a specific reference period. Due to small sample sizes in some countries, LFS data are limited to capture specific information on structural and regional issues.

Registration data are based on complete data sets, thus providing much more accuracy in terms of coverage, also the frequency of the data collection is much higher. Thus short interval time series (monthly data), as well as regional and other characteristics of the unemployment are available often only from these sources. Their major shortcoming is the coverage of only that part of the population, which is eligible for registration in the unemployment registers[9] and willing to register. Therefore, they are subject to administrative regulations and definitions, which differ from country to country and vary within different years. Unemployment rates on the basis of the registration are calculated as a percentage of the economically active population (usually on the basis of administrative records) and differ from the LFS rates by definition. Sometimes even LFS labour force data combined with registered unemployment data are used to compile unemployment rates.

Due to these differences, the data from these statistics overlap only to a – sometimes relatively - small extent, and the non-overlapping parts may be significant both in size and in dynamics. The following example explains this phenomenon for Slovenia: In the second quarter of 1997 there were 69,000 persons unemployed according to the LFS, but 123,000 registered unemployed persons with only 55,000 persons classified in both categories. The grey economy accounts for a large share of the persons registered as unemployed (about 27,000), but not contained in the LFS data: persons that perform work on an occasional or even illegal basis and family workers. Furthermore, current legislation allows persons to perform occasional work,

Chart CE 2: *Comparison between registered and LFS unemployment for Slovenia, June 1997*



Source: Slovenian National Employment Office, 1998

earning a remuneration that does not exceed twice the amount of the unemployment benefits received. An even larger part (about 40,000) are counted as inactive by the LFS, but registered as unemployed. This can be largely explained by the high share of long-term unemployment (discouraged workers), long periods of entitlement to unemployment benefits (2 years) and entitlement to social benefits due to the status as a registered unemployed person (e.g. retirement insurance, allowances, etc.). Finally, the denominator used for the calculation of unemployment rates also varies significantly: whereas the LFS counts an economically active population of 898,000, the monthly figures of the medical insurance give a figure of 744,000. Thus these two rates are not comparable in any respect.

Table 1 shows the difference between LFS and registered unemployed persons and gives the ratio between these figures. Calculated in total for all countries, the figures are more or less the same. However, the deviations differ in both directions: whereas in the Baltic countries registered unemployment is much lower than LFS unemployment, in Slovenia, Romania and Hungary registered unemployment exceeds LFS figures by at least 20% (see also Chapter 2 for more details). But even in countries with a high correspondence between both figures, the two figures are not comparable in terms of coverage of the same types of persons.

Table CE1: *Comparison of LFS and registered unemployment*

Country	Registered unemployed in 1000		LFS Unemployed in 1000		Registered unemployed/LFS unemployment		Comments
	1997	1998	1997	1998	1997	1998	
Bulgaria	523.5	465.2	534.1	556.1	1.0	0.8	• 17% of registered unemployed are not covered in LFS (15% are not searching for a job and 2% had a job in the reference week) • 37% of the LFS unemployed were not registered
Czech Republic	268.9	386.9	248.3	335.7	1.1	1.2	No information on comparison available
Estonia	30.6	34.5	69.4	72.0	0.4	0.5	• 50% of registered unemployed are not covered in the LFS (35% are not searching for a job or are not available and 15% had a job in the reference week)
Hungary	464.0	404.0	349.0	313.0	1.3	1.3	No information on comparison available
Latvia	120.2	122.8	255.9	247.3	0.5	0.5	Men > 61 and women > 56 are excluded from reg. unemployment (about 5,000 persons)
Lithuania	84.9	111.4	171.2	172.0[10]	0.5	0.6	No information on comparison available
FYROM	257.7	.	288.2	284.3	0.9	.	• 35 – 42% of registered unemployed are not covered in LFS (22% are not searching for a job or are not available and 13-20% had a job in the reference week)
Poland	1,826.4	1,831.4	1,923.0	1,816.0	0.9	1.0	• 12% of the LFS unemployed were not registered
Romania	881.0	1,025.0	706.5	732.4	1.2	1.4	No information on comparison available
Slovakia	347.8	428.2	287.0	297.0[11]	1.2	1.4	No information on comparison available
Slovenia	128.6	126.6	72.0	77.0[12]	1.8	1.6	• 54% of registered unemployed are not covered in LFS (32% are not searching for a job or are not available and 22% had a job in the reference week) • 19% of the LFS unemployed were not registered
Total	4,933.6	4,936.0	4,904.6	4,902.8	1.0	1.0	

Source: Statistical Annex

1 See: Employment in Europe 1998, Luxembourg: Office for Official Publications of the European Communities, 1999

2 From 1992 until 1997 the LFS was conducted annually under Council Regulation (EC) No. 3711/91; from 1998 onwards a continuous survey giving quarterly results was initiated under Council Regulation (EC) No. 577/98

3 Persons who during the reference period performed some work for wage or salary, in cash or in kind; with „some work" meaning as work for at least one hour.

4 Persons who, having already worked in their present job, were temporarily not at work during the reference period and had a formal attachment to their job.

5 Were not in paid employment or self-employment, as defined above.

6 Were available for paid employment or self-employment within two weeks.

7 Had taken specific steps in the preceding 4 weeks to seek paid employment of self-employment.

8 Alois Van Bastelaer: Sectoral Evaluation of Labour Force statistics. Technical report, October – December 1997; ICON-Institut GmbH in association with PLANISTAT EUROPE for the European Commission, DG IA, January 1998

9 For example, in Slovakia a person can be registered even if he/she has no entitlement to unemployment compensation. The eligibility conditions for registration are permanent residence in the district of registration, age over 15, non-employment status and submission of a written application.

10 II. quarter

11 IV. quarter

12 II. quarter

3. Country Profiles

3.1. Bulgaria

Economic development

Following the launch of radical economic reforms in 1990 and eight years of unsuccessful attempts to implement these reforms, the 1998 GDP was only two thirds of its pre-transition level of 1989. When the country failed to meet its debt service obligation in 1997 a currency board regime was introduced, tying the Bulgarian lev to the German mark, replaced by the euro in 1999. The currency board system has brought stability to economic development, and during the second half of 1997 the GDP started to grow. After two years of significant declines, economic growth in 1998 reached about 3.5%. *(Table 1)* The Bulgarian government envisages annual economic growth of 4% in 1999 and 5% in 2000. But taking into account the low efficiency in the economy and the detrimental effects of the Kosovo conflict on Bulgarian transport routes, these goals are highly unrealistic.

Industrial production contracted all through 1997-98 and no recovery is in sight. Bulgaria has a very vulnerable export specialization in material- and energy-intensive commodities. The price fall of these products on the world market had a negative impact on performance. A large part of the manufacturing sector is in a state of collapse, with several big state-owned firms close to bankruptcy. With repeated delays in the politically unpopular process of restructuring, these firms continue to generate huge losses and hence quasi-fiscal deficits. The negative changes of gross fixed investment (in real terms) and the low foreign investment flows have additionally contributed to limited job opportunities and to the continuing decrease in employment.

Bulgaria had high **inflation** rates in the mid-1990s galloping to over 1,000% in 1997. Only the currency board system made it possible to successfully conduct a permanent anti-inflation policy. Bringing down inflation to 22% in 1998 (on an annual average) provides a stable background for economic recovery.

Due to the inflation shocks and the restrictive income policy at the beginning of 1997, real **wages** in the public sector reached a very low level. Nominal wages were only USD 82 per month. In 1998 a substantial increase in real wages was recorded, in nominal terms they amounted to USD 118 per month. A direct influence of the wage level on employment is not observed due to the imperfect market. The recovery in real terms is in itself rather controversial against the background of a chronically weak economy. The growth in real incomes was not backed by a matching increase in labour productivity and thus led to losses in competitiveness. In turn, it did not serve to generate the expected demand pull for local producers due to low supply responsiveness and a supply-demand mismatch. The major outcome seems to have been a substantial deterioration in the 1998 trade balance.

The collapse of the trade system of the former CMEA — Bulgaria conducted two thirds of its **trade** with that region — caused an abrupt fall of demand. The process of reorientation of Bulgarian exports is continuing and recently nearly half of the exports is oriented towards EU countries. The current account balance deteriorated in 1998 despite the dormant economy but could be financed by the inflow of foreign direct investment. Because of the severe balance-of-payments constraints and low local savings, the Bulgarian economy is still incapable of self-sustained growth. Foreign debt service is impossible without continued official foreign assistance.

The cumulated inflow of **foreign direct investment** was about USD 2 bn for the period 1990-98, of which less than half as a result of the privatization process. Half of the FDI came in 1997-98 due to improved economic stability and accelerated privatization.

Table BG1: *Bulgaria: Selected economic indicators*

	1993	1994	1995	1996	1997	1998
Gross domestic product, real change in %	-1.5	1.8	2.9	-10.1	-6.9	3.5
Industrial output, real change in %	-9.8	10.7	4.5	3.8	-8.6	-9.4*)
Employees in industry, annual change in %	-12.1	-8.5	-5.5	-5.5	-21.5	-27.6
Gross fixed investment, real change in %	-17.5	1.1	16.1	-21.2	-22.1	2.0
Average wages, real change in %	-8.7	-21.7	-5.5	-17.6	-19.1	23.7
Trade balance in % of GDP	-9.6	-2.1	-2.3	-1.8	0.1	-5.1

*) = Sales

Source: WIIW database incorporating national statistics, Eurostat

The labour market

Population and labour force

Data available for the last nine years indicate that the Bulgarian population has decreased significantly, by more than half a million. There are quite alarming tendencies of ageing of the population, a reduction of the economically active, and a drain of young and highly qualified labour force from the country. Since 1989 the natural increase has been negative (minus 6.8 in 1989 and minus 6.9 in 1997). The

population below 15 years of age has been on the decline, while the number of people aged 65 and more has been rising.

In general the mobility of the Bulgarian population is not very high. But the transition caused several significant migration flows registered after 1988:

- an outflow of Bulgarian Muslims to Turkey — more than half a million people;
- an outflow of highly qualified unemployed people;
- an outflow of unemployed young people;
- an outflow of young people who wish to study abroad.

Inflows have been insignificant, including people from Asia on their way to Western Europe.

During the 1990-97 period, the economic activity rate (based on the working-age population 15 years and over) has decreased by about 10 percentage points. The economic activity rate is higher for men (74%) than for women (70%). According to Labour Force Survey (LFS) data, the educational structure of the working-age population was changing during the 1993-98 period: the share of persons with higher education, semi-higher and secondary education is on the increase, while the share with primary or lower education is declining.

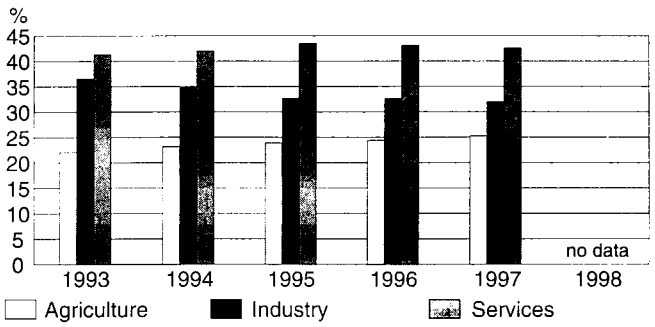
Employment

During the 1989-98 period, total employment decreased by more than one million people or one fourth of the pre-transition level. The employment share of men (60%) is higher than for women. Official statistics do not cover employment in the shadow/black economy, which accounted for an estimated 21% of the reported GDP in 1998.

Employment statistics indicate an increase in the share of those employed in agriculture over the 1993-97 period; industrial employment decreased slightly. The share of employed in the services sector rose only marginally, displaying a very low level compared with the European Union, but also in comparison with other transition countries. The employment increase in agriculture is resulting from the restitution of agricultural land and is concentrated in the private sector. Employment in industry has undergone considerable changes in the course of restructuring: employment declined by almost one third in mining, and by about 50% in construction. Increases were reported in the field of energy. The services sector started from a very low level and most of its activities — in particular in the business services segment — had started only in the transition period. The business services sector employs mainly young people with high qualification.

The development of employment in the private sector reflects the privatization process in Bulgaria. In the initial

Figure BG1: *Structure of employment, shares in %* *)



*) = According to registered employment

Source: Eurostat

phase of privatization, apart from agriculture, the trade sector became one of the main employers in the private sector. Following the sale of big state-owned enterprises in 1998, the share of the private sector in industry reported a decisive increase. Altogether the private sector accounts for more than half of total employment. Meanwhile employment in the state sector has been steadily declining. The forthcoming privatization of huge state enterprises will lead to a considerable decrease of employment in this sector.

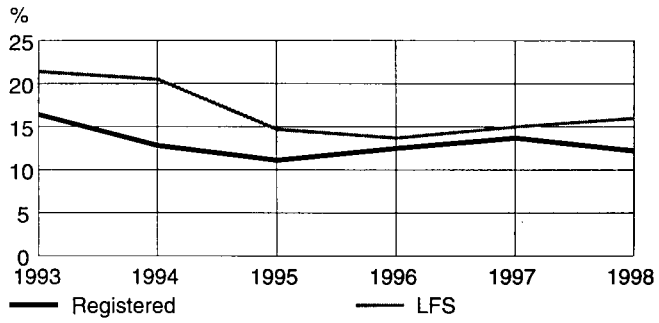
As for the educational structure of employed, about one third of employed have secondary comprehensive education (based on June 1998 LFS data); the share of employed with primary and lower education is 24.8%; the share of those with secondary vocational education is 22.1%, and of those with higher and semi-higher education 20.8%.

Because of the low level of pensions, the economic activity of pensioners has been relatively high. Most of them are employed in the private sector and constitute part of the so-called illegal employment.

Unemployment

Unemployment is one of the most serious problems of the transition in Bulgaria. The number of jobless reached a peak level in 1993 with more than 600 thousand persons registered in the employment records, equalling a 16% unemployment rate. *(Figure 2)* Measured by the ILO

Figure BG2: *Unemployment rate in % - by registration and LFS*

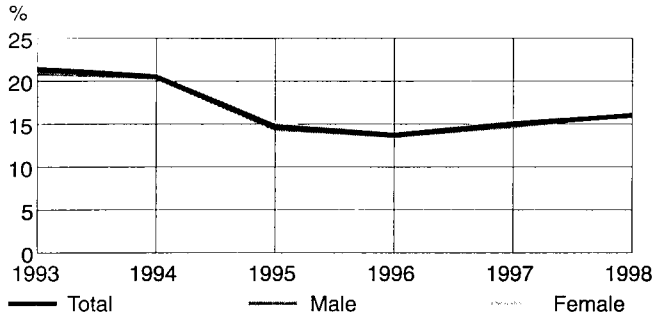


Source: Eurostat

methodology, the number of unemployed exceeded the registered jobless even by 200 thousand persons, corresponding to a 21% unemployment rate. During the subsequent years unemployment data showed a rather diverging picture: while register data report strong fluctuations over the 1994-98 period, ending with an 11% decline of unemployment in 1998, data provided by the Labour Force Survey report a reduction of unemployed until 1996 and an increase in both 1997 and 1998.

In 1998 the unemployment rate for men was higher than for women. *(Figure 3)* People between 15 and 24 years of age are most affected by unemployment, reporting an unemployment rate of 36% in 1998 (based on survey data). *(Table 2)* The share of people with primary and lower educational level in total unemployment ranged from 47% in 1993 to 41% in 1998. Long-term unemployment constitutes more than 50% of the total unemployment pool. Women are more affected by long-term unemployment than are men.

Figure BG3: *Unemployment rate in % - by gender (LFS)*



Note: Data refer to September (1993), October (1994, 1995) and November (1996-1998)

Source: Eurostat, WIIW incorporating national statistics

Table BG2: *Unemployment rate in % - by age groups (LFS)*

	1993	1994	1995	1996	1997	1998
Total	21.4	20.5	14.7	13.7	15.0	16.0
Less than 25 years of age	47.0	44.9	37.7	33.5	36.0	36.0
25 and more years of age	17.3	16.8	11.6	11.3	12.4	13.4
Share of long-term unemployed in total, %	53.8	60.0	65.6	59.9	57.6	54.4

Note: Data are not annual averages but refer to September (1993), October (1994, 1995) and November (1996-1998), respectively

Source: Eurostat, WIIW incorporating national statistics

Current stage of transition

Bulgaria has a liberalized economic, price and trade system. Institution-building and privatization are lagging behind, thus competition is distorted. The private sector contributes only to some 50% of GDP. Under the currency board system, the Bulgarian economy achieved macroeconomic stabilization but at a low level of employment, wages and living standards. Of crucial importance will be the forthcoming reform steps — continuation of the privatization process of the large state-owned enterprises and creation of incentives for sustainable economic growth. Restructuring and privatization will be connected with lay-offs in order to increase the profitability of firms. The government provides incentives for small and medium-size enterprises as well as self-employment and foreign investment to create alternative employment.

3.2. Czech Republic

Economic development

In terms of population the Czech Republic ranks among the smaller transition countries. However, in terms of per capita GDP, the country ranks second behind Slovenia. In 1997 GDP in purchasing power standards amounted to 64% of the EU-15 average. Czech commodity prices, especially those of non-tradable goods, are relatively low by western standards. Correspondingly, the GDP at purchasing power standards is much higher than the GDP at current exchange rates: in 1997, the former was ECU 124.9 billion, while the latter amounted to ECU 45.9 billion. The degree of industrialization in the Czech Republic is high. Less satisfactory is the degree of technological progress. Large industrial agglomerates are the traditional ‚backbone' of the Czech economy.

Table CZ1: *Czech Republic: Selected economic indicators*

	1993	1994	1995	1996	1997	1998
Gross domestic product, real change in %	0.6	2.7	6.4	3.9	1.0	-2.7
Industrial output, real change in %	-5.3	2.1	9.2	2.0	4.5	1.6
Employees in industry, annual change in %	-6.5	-4.6	-10.7	-4.9	15.1	-1.6
Gross fixed investment, real change in %	-7.7	17.3	21.0	8.7	-4.9	-3.7
Average wages, real change in %	3.8	7.8	8.7	8.9	2.1	-1.3
Trade balance in % of GDP	1.0	-1.8	-7.1	-10.3	-8.4	-4.5

Source: WIIW database incorporating national statistics, Eurostat

Democracy in the country is well established. The majority of inhabitants understood the necessity of reforms after 1989 and supported the political and economic transformation. After radical liberalization of internal and foreign trade, the authorities initially depreciated the exchange rate to protect the domestic production, and tried to keep a stable exchange rate afterwards. The initial inflationary pressures were not welcomed by the monetary authorities, which succeeded in bringing the rate of inflation down to one-digit levels soon.

Besides liberalization and stabilization, the authorities emphasized privatization. The Czech government opted for a strategy which guaranteed public acceptance; part of the shares in large and medium-size companies were distributed to the population through the voucher privatization scheme. This often resulted in unclear ownership structures without any efficient control of management decisions. Even worse, this type of privatization limited the scope of foreign direct investment and did not generate the domestic funds needed for the modernization of the corporate sector. As a result, large parts of the Czech corporate sector, especially larger companies with long tradition, were not able to undertake sufficient restructuring. This situation is reflected in unhealthy financial relations inside the business sector. Many companies are heavily indebted. For example, at the end of 1997, the debt burden on manufacturing approached the sector's aggregate value added for that year. Often the larger companies were generating permanent losses while accepting new loans, thus continuously accumulating debts. The development was backed by the banking sector, which has gradually lost its capital adequacy. In order to reduce the risk of a collapse of the financial system, the Czech government, in April 1999, introduced a revitalization package — a costly programme aimed at improving the financial situation of large enterprises.

Transition has brought substantial changes in the composition of output and GDP. The reorientation of **foreign trade** from East to West caused a massive loss of markets for producers of more sophisticated goods such as consumer and investment goods or military equipment. Consequently, the output of such industries initially fell by up to two thirds of the previous level. Other industries, producers of less sophisticated intermediate goods, had much easier access to western markets, and the initial output decline was less dramatic. This tendency was exacerbated by the foreign trade policy — a mix of radical removal of most foreign trade barriers, strong currency depreciation and denial of all kinds of export promotion. The aggregate output of Czech industry has so far not caught up with its level of 1989. The services sector was underdeveloped in 1989 but expanded rapidly afterwards. The share of agriculture is somewhat above 5% of GDP and thus very low compared to some other transition countries. The former regime had destroyed family farming, handing over agricultural production to big estates. Transformation meant restitution of soil to former owners, while at the same time a splitting of the big production units, despite some down-sizing in extreme cases, was avoided.

Inflation had emerged when price liberalization coincided with strong devaluation of the currency. A second jump followed from the introduction of value added tax in 1993. In 1998 the inflationary pressure vanished, during the last six months of the year even a decrease of the consumer price index was reported. Among the possible reasons for this development were the lower prices of foods and imported fuels. Furthermore, in the first half of 1998 labour productivity growth exceeded the rise of nominal wages, pushing down unit labour costs. However, this tendency was reversed in the second half of the year when a strong recession led to a decline in

industrial output and labour productivity. Another rise of inflation is envisaged in connection with lifting of some regulated prices (rents, health, public transport) which, by western standards, are very low as compared to traded goods. Due to the increase in regulated prices the consumer price index in 1998 averaged 10.7% above the level of 1997.

In 1998, average gross monthly **wages** were CZK 11,712, which corresponds to USD 363 at the current exchange rate and USD 908 at purchasing power parities. Average annual wages amounted to CZK 136,000, or 38% of the GDP per employed person. Between 1993 and 1998 labour productivity, expressed as real GDP per employed person, increased on average by 2.4% per annum. The simultaneous growth of average nominal wages by 16% implied an average annual increase of unit labour costs of about 13%. Annual growth of real wages during the same period was on average 4.3%.

The growth of nominal wages declined considerably during the last years: from 25% in 1993 to only 5.6% in 1998. The severe recession of 1998 influenced also real wages, which declined by 4.6%. In the course of the transition process, wage differentials increased in many respects: between types of employment, between industries and regionally. Income is however still more equally distributed in the Czech Republic than for example in Poland.

While the share of foreigners in the Czech corporate sector is so far relatively small, especially in comparison to Hungary, the Czech economy is very active in **foreign trade**; in 1998, exports of goods made up 49% of GDP, services 14%. The main trading partner, the EU, in 1998 absorbed 64.1% of Czech exports and provided 63.3% of Czech imports.

The net inflow of **foreign direct investment** was USD 2.5 billion, or 4.6% of GDP in 1998 — about twice as much as in 1997. This development, which occurred despite the deepening recession, may indicate that investors regard the GDP decline as temporary. It may also indicate a positive impact of the new policy of FDI stimulation. The largest joint ventures in the Czech Republic are Skoda Volkswagen (Germany), Telecom (Switzerland, Netherlands) and Philip Morris (USA). Also a big number of small and medium-size enterprises from neighbouring Austria and Germany got involved as direct investors in Czech companies of similar size.

3.2.2. The labour market

Population and labour force

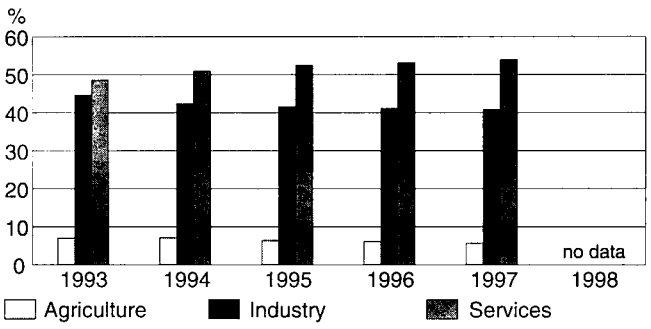
The population of the Czech Republic slightly declined in recent years. The natural decrease is not fully offset by migration. Despite the increasing inflow of migrants, the share of foreign population is still negligible compared to some western countries. Both the share of population in working age (15-64) and in retirement age increased between 1994 and 1996.

The labour force amounts to somewhat less than 75% of the working-age population. In 1997 the activity rate was 72.4%, thus by nearly five percentage points higher than in the EU-15. The activity rate measured as labour force share of the population aged over 14, was 63.3% in 1993 and 1994, and it decreased to about 61% in 1997 and 1998.

Employment

During the first transformation years, the sharp reduction of employment was manifested more in the outflows to inactivity, thus reducing the activity rate rather than increasing unemployment. Employment in industry declined at higher rates than overall employment. The expanding services sector absorbed people from industry and agriculture. In 1998 the shares of agriculture and industry in total employment were down to 5.9% and 42.2% respectively, while the share of the services sector reached 53.3%. *(Figure 1)*

Figure CZ1: *Structure of employment, shares in %* *)



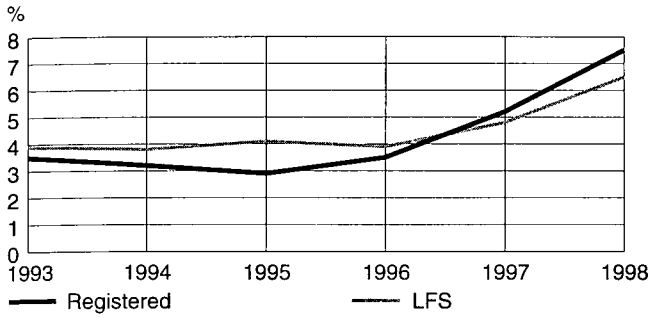
*) = According to registered employment

Source: Eurostat

Unemployment

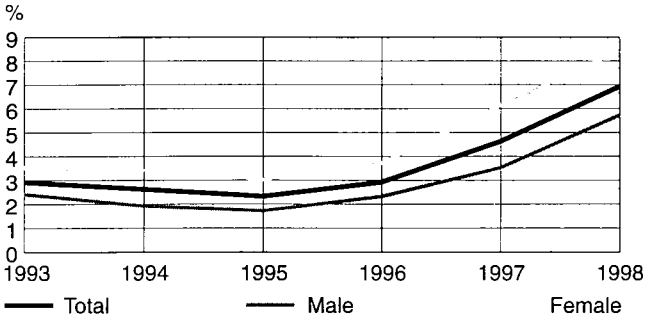
Throughout the transition period, the unemployment rate in the Czech Republic was extremely low by international standards. Until 1997 it did not exceed 5%. This fact has no simple mono-causal explanation. Rather, several factors are believed to have contributed to the Czech unemployment 'miracle'. Labour is relatively cheap and therefore stimulating labour-intensive production. Probably more decisive was labour hoarding in the context of postponed restructuring of the Czech enterprises – a phenomenon which may be a result of the soft budget constraints in parts of the corporate and public sector. The constraints have, however, increased sharply in recent months, both because of the current deep recession and the National Bank's new strict regulations for commercial banks. The rate of unemployment reacted immediately by a prolonged increase. In the fourth quarter of 1998 it was up to 7.3% and continued growth has been observed meantime and is also expected in the coming months. *(Figure 2)*

Figure CZ2: *Unemployment rate in % - by registration and LFS*



Source: Eurostat

Figure CZ3: *Unemployment rate in % - by gender (by registration)*



Source: WIIW database incorporating national statistics

Another reason for the low Czech unemployment is the relatively high turnover of the unemployment pool. Among the transition countries, the Czech labour market was the one with comparable outflow and inflow rates from and to unemployment. This balance could have been achieved due to larger flows to inactivity, as well as due to the vivid development of small and private businesses. Good labour market dynamics is also manifested in lower incidence of long-term unemployment. Long-term unemployed represent about one third of total unemployment.

The share of women in total unemployment is 55%, which is relatively high if compared to their share in total employment of 44%. *(Figure 3)* Young workers under 25 years of age enjoy a relatively good labour market position in the Czech Republic. Their share in total unemployment in 1998 was about 12%, which was the lowest among the transition countries. *(Table 2)*

3.2.3. Current stage of transition

The transformation of the Czech economy was done in the spirit of liberalism, but continued to maintain much of the welfare state. Much of the existing former non-liberal legislation is still in effect and building of institutions appropriate for the functioning of a market economy is lagging. For example, implementation of bankruptcy procedures is not effective enough to achieve the desired degree of restructuring of enterprises. Consequently, the rule of law is not sufficiently implemented and transparency is underdeveloped in many respects.

The financial structure, especially financial relations among non-financial companies and between them and the banking sector, should have been consolidated a long time ago. The failure to do so has brought a lack of dynamics in the corporate

Table CZ2: *Unemployment rate in % - by age groups (LFS)*

	1993	1994	1995	1996	1997	1998
Total	3.9	3.8	4.1	3.9	4.8	6.5
Less than 25 years of age	.	7.7	7.9	7.2	8.6	12.4
25 and more years of age	.	3.0	3.3	3.3	4.1	5.3
Share of long-term unemployed in total, %	.	.	.	.	27.6	29.5

Source: Eurostat, WIIW database incorporating national statistics

The regional distribution of unemployment is rather uneven. Unemployment practically does not exist in Prague, while the highest unemployment rates are observed in some northern districts close to the Polish and German borders.

sector. There is, however, no doubt that this will happen in the medium and long run. In the light of the prepared accession of the Czech Republic to the European Union, the implementation of the acquis communautaire is being realized, which will help to remove the institutional shortcomings.

3.3. Estonia

Economic development

The Estonian economy resumed its growth in 1995. This was preceded by a bulk of radical measures adopted mostly in 1992. An own currency, the Estonian kroon, was introduced in June and pegged to the German mark. Consequently, a completely new environment for business activities was created, which is considered to be the start of serious economic reforms in Estonia.

The poor starting conditions had led to greater falls in output than in most Central and East European countries. By Estonian Statistical Office estimates, Estonia had restored growth in 1995. Annual GDP grew by about 4% in 1995 and 1996, and by 10.6% in 1997. In 1998 GDP growth slowed down to 4.2%. *(Table 1)* In terms of GDP per capita, expressed in purchasingpower standards, Estonia reached 37% of the EU-15 average in 1997.

in the import structure justifies optimistic expectations regarding a future increase in productivity in the Estonian export sector. The crisis in Russia has affected Estonia's trade mostly by weakening the exchange rate of the rouble and settlement problems. In general, the Russian crisis had a retarding impact on Estonia's economic growth.

Throughout the post-independence period, Estonia's fiscal policy has proceeded from the internal balance of the central government budget. The balance of the central government budget and the consolidated budget has been strongly influenced by the extent of the investment programmes of the public sector. In some years, the savings of the public sector were not adequate to finance these programmes and foreign loans were used. In view of the increase in consumption and the decrease in savings in 1996 the government set the target of achieving a budget surplus in both 1997 and 1998. The surplus was channelled into the Stabilization Reserve Fund that will help the government to finance unforeseeable expenses without having to increase the tax or debt burden.

Table EE1: *Estonia: Selected economic indicators*

	1993	1994	1995	1996	1997	1998
Gross domestic product, real change in %	-9.0	-2.0	4.3	4.0	10.6	4.2
Industrial output, real change in %	-18.7	-3.0	1.9	2.9	13.4	1.5
Employees in industry (LFS), annual change in %	.	-5.1	8.3	-4.9	-0.6	-8.1
Gross fixed investment, real change in %	.	.	.	.	.	.
Average wages, real change in %	2.3	10.2	6.2	2.1	7.6	7.9
Trade balance in % of GDP	-5.5	-15.4	-19.8	-26.4	-32.2	-28.0

Source: WIIW database incorporating national statistics, Eurostat

Inflation has been steadily decreasing. The extremely high values of the initial transition period were reduced in 1993, when the annual average growth of consumer prices reached 90%. Subsequent annual reductions of the growth of inflation led to the relatively low rate of 8.2% in 1998. The establishment of a currency board contributed to the stabilization. The currency board gives credibility to the Estonian monetary policy and helps to avoid speculations against the Estonian currency.

Real **wages** increased steadily in the period from 1993 to 1998; the partly high increase rates were due to favourable wage developments in only a few branches. The majority of the employed had to accept below average increases of real wages. During the whole period the service sector reported the highest increases whereas the agricultural sector was marked by downward trends.

Foreign trade has exhibited permanent and increasing deficits during the transition period. In 1997 the trade deficit to GDP ratio reached 32%, which is enormously high even for a developing country. Because of the decline of domestic demand and the increase in exports, the share of the trade deficit was lower (28% of GDP) in 1998.

The largest share of Estonian imports is made up by machinery and equipment. The prevalence of capital goods

The labour market

The transition period of 1989-98 has brought about substantial changes in the dynamics of demographic processes. The continuous increase of the population culminated at the beginning of the 1990s. Starting from 1990, the resident population of Estonia started declining steadily. In 1998 it hit the level of the end of the 1970s — less than one and a half million. The reason was the negative value of the two main components of population growth: net migration has been negative since 1990 and the natural birth rate has been decreasing since 1991.

The period 1993-97 was of major importance for the Estonian economy. The emergence and growth of unemployment and the decrease in employment fall into this period. The share of inactive population increased from 23.1% to 31.9%. The increase was driven mainly by the development of the economic activity of women. In 1989, the rate of economic activity among women was 71.7%, and by 1997 it declined to 61.7%.

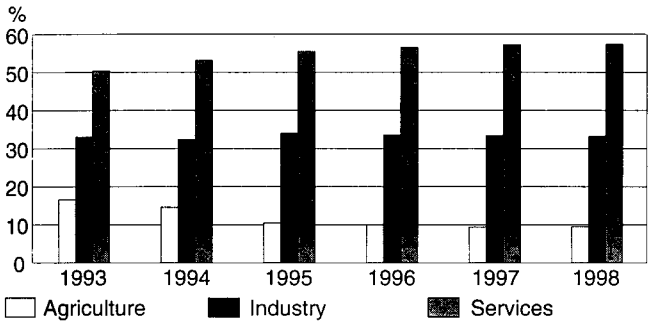
Employment

There was a steady decrease in registered employment during the period 1989-97. In total, employment decreased by 194 thousand people, which constitutes 27% of today's

labour force. The employment rate decreased from 76.4% in 1989 to 61.5% in 1997.

A comparative advantage of the Estonian labour market is the relatively fast restructuring of employment. Compared to the other Baltic countries, Estonia is the one where changes in the employment structure by industry have been fastest during the last few years, approaching the average indicators of the European Union. Another positive tendency for Estonia is that employment in industry has decreased less as compared to other countries; also, the fast increase in employment in the financial sector is a sign of the fast development of that particular sector. A negative fact is that the fast decrease in employment in agriculture may give rise to additional social problems in rural areas. *(Figure 1)*

Figure EE1: *Structure of employment, shares in %*



Source: Eurostat

The gender structure of employment indicates traditionally high employment shares of women. In 1989, women accounted for 49.1% of total employment, in 1997 the share was still close to 48%. As was pointed out above, total employment decreased from 1989 to 1994. The decrease of employment was more profound and faster among women. During the period observed, the employment of women decreased by 25%, while the corresponding indicator among men was 21%.

The industries with the largest shares of women in total employment in 1989 were health care, finances, education and trade and hotels. In most industries a decline of the female share in employment can be observed, with the exception of hotels and restaurants, education, and other personal services. Generally speaking, the male population has been more successful in keeping its former level of employment, while women have become more inactive during the transition period.

Employment in the public sector has decreased significantly during transition. The fastest decrease occurred in manufacturing, but also in the services sector. As a result of fast privatization, most profit-oriented enterprises are in private ownership. The largest part of employed persons in the private sector is involved in the services sector.

The share of the private sector in employment is expected to increase in the near future due to the decision to privatize several large infrastructure firms such as the power stations and railway transport.

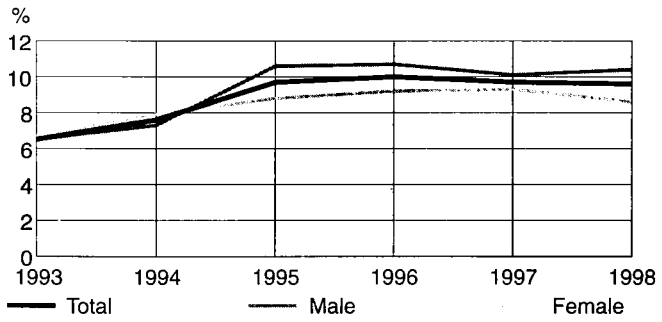
An alternative source of information about labour market indicators is the Labour Force Survey. In the 1990s, three LFS were carried out in Estonia, in the years 1995, 1997 and 1998. According to LFS data from 1995 and 1997, the number of employed persons decreased from 838 thousand in 1989 to 645 thousand in 1996. This means a decrease by 200 thousand people. Over 100 thousand persons have left the labour market during the last years. Of those, more than 80 thousand have left Estonia; 40-45 thousand have retired or left the labour market for other reasons. The remaining 70-75 thousand became unemployed.

Unemployment

Currently the most comprehensive overview of the present development of unemployment comes from the administrative data by the State Employment Board. The statistics are valuable mainly because of their comprehensiveness. Latest data from labour services about registered unemployment show that the influence of Russia's economic depression has been rather strong. There were around 46 thousand registered jobseekers in March 1999. This is the highest level of registered unemployment in Estonia so far. There is a seasonal factor variation in unemployment, reaching its peak in March-May.

Over the transition period the unemployment rate has increased from almost zero to 10%. According to LFS data, the unemployment rate for women is lower than that for men. *(Figure 2)* This unusual phenomenon could be explained by the fact that a large number of female labour has moved to inactivity. According to LFS data, the number of inactive men increased by 35 thousand in 1989-96, while the number of inactive women increased by 48 thousand.

Figure EE2: *Unemployment rate in % - by gender (LFS)*



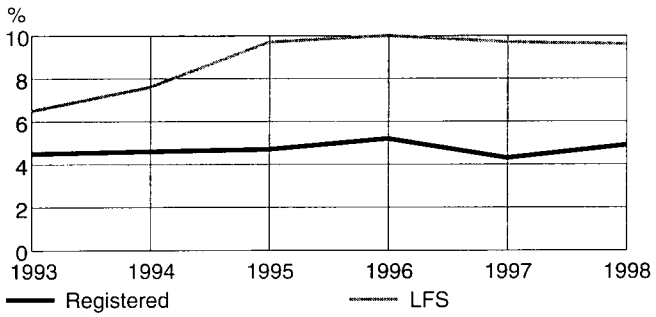
Source: Eurostat

Unemployment of the Russian-speaking minorities is an important economic and political issue. According to LFS data, total unemployment of non-Estonians was 14% in 1996. Compared with the unemployment rate of Estonians (7.8%), that number is almost twice as high. Some analyses have

shown that Russian-speakers have more problems in the labour market than Estonians. Therefore, they must be more active in seeking new jobs. The situation would be improved by differentiating labour market policies by regions, with different sets of regulations for unemployment benefits, active labour market policies and several measures to develop the system of adult training and retraining programmes for people who may face layoff due to enterprise reorganization.

Long-term unemployment is increasing in Estonia. In 1995 the share of those looking for a job for more than 12 month was around 30%; by 1998 it increased to 45%. In the future, the growth of long-term unemployment may have serious impacts in regions where unemployment during the last few years has been traditionally high: primarily the South of the country and rural areas remote from county centres. *(Table 2)*

Figure EE3: *Unemployment rate in % - by registration and LFS*



Source: Eurostat

Table EE2: *Unemployment rate in % - by age groups (LFS)*

	1993	1994	1995	1996	1997	1998
Total	6.5	7.6	9.7	10.0	9.7	9.6
Less than 25 years of age	11.0	11.6	14.1	16.0	14.4	14.5
25 and more years of age	5.8	6.9	9.1	9.1	9.0	8.8
Share of long-term unemployed in total, %	28.1	39.6	31.8	55.3	45.8	45.0

Source: Eurostat

One reason why registered unemployment is relatively low is the low level of unemployment benefits in Estonia, at 400 kroons (the gross replacement ratio is 10%). *(Figure 3)* This small amount does not encourage jobseekers to register as unemployed. As a result, a large part of unemployment in Estonia is not registered. People who have been seeking a job for more than a year lose the right to be registered as unemployed, since they do not meet the requirements of the legislation (an unemployed person must have worked six months during the previous twelve months). They are thus excluded from registered unemployment. According to LFS data, about one third of unemployed had been looking for a job for more than a year.

There are several other factors that contributed to accommodating excessive labour force in Estonia. The fast development of the hidden economy could absorb a considerable amount of labour force. Hidden labour force is concentrated mainly in construction, agriculture, trade, and services. The share of inactive population in Estonia is relatively high. According to LFS data, in the spring of 1997, 31.9% of the respondents were outside the labour force and did not wish to work. Another relief of labour market pressures comes from the fact that potentially unemployed persons become part-time workers. About one third of part-time workers would prefer to work full-time. According to the 1995 LFS, 8% of working-age persons in the sample worked part-time and 39.5% of them were underemployed.

Current stage of transition

The transition process in Estonia can be split into several subperiods. Until 1991, Estonia was part of the Soviet Union, in 1991 it regained its political independence. In 1992 radical economic reforms were launched, the first post-reform years were 1993 and 1994. The privatization process in Estonia has resulted in the current 87.8% share of private ownership among registered enterprises, implying that joint-stock companies, joint ventures and other forms of businesses are privately owned. However, the share of the state or public sector as an employer is relatively large, since the state is the main employer in such fields as electricity, gas and water supply, education, health care, public administration etc.

Estonia has a good reputation among the former Soviet Union and Central and East European states as being a country committed to market reform and economic stability. Recent events such as Estonia's inclusion among the first-round candidates for EU accession and its receiving relatively high credit ratings by international rating agencies indicate international confidence in the country's future development. For example, the cumulative level of foreign direct investment per capita in Estonia from 1989 to 1996 was USD 477 million, which was higher than in any other FSU country and close to the levels of countries such as Hungary and the Czech Republic. 1998 has brought further positive changes in this respect: Swedish banks took over two large Estonian commercial banks, followed by a substantial increase of FDI inflows.

3.4. Hungary

Economic development

Hungary's economic development can be divided into three stages within the nine-year period of transition. In the first stage, 1990-93, the economy went through the so-called transitional recession: GDP declined by about 20%, industrial production by about 35%, agricultural output even more. The second stage, 1994 to early 1995, was characterized by slow economic growth and increasing public-finance and current-account imbalances. With the stabilization package introduced in March 1995, a new era began: economic growth accelerated (+1.5% in 1995; +5.1 in 1998) driven by quickly expanding investment activity, exports and productivity growth in industry. *(Table 1)*

Thanks to the early reforms under the previous political regime, the change in relative prices was not as dramatic as in other centrally planned economies; thus Hungary was saved from hyperinflation as transition began. **Inflation**, measured by the consumer price index, attained its highest value in 1991 with 35% and dropped to around 20% in the subsequent three years. Part of the 1995 stabilization package was a considerable real devaluation of the forint, and this, due to the openness of the Hungarian economy and the immediate impact of import prices on inflation, pushed up inflation again close to 30%. In the following three and a half years inflation continuously declined, to 14.3% in 1998. This was achieved by the introduction of the moderate pre-announced devaluation of the forint (crawling peg) making the exchange rate policy transparent and the price rises more predictable; budget expenditures remained under control; further, it was possible to avoid excessive real wage rises when economic growth accelerated. By the beginning of 1999, inflation became single digit, and unless unexpected developments occur, it may drop to 7-8% by the year 2000.

producers and to improve the balance in public finance. The years 1997 and 1998 brought considerable real wage growth of 4.9% and 3.5%, respectively. This was supported by rapidly increasing (at double-digit growth rates) productivity in industry.

In 1990 and 1991 fundamental changes took place in Hungary's **foreign trade**. The formerly sheltered export markets of the CMEA collapsed and Hungarian firms also had to cope with increasing competition on the domestic market by foreign suppliers. The transformation process and the new bankruptcy and accounting law made the life of Hungarian exporters difficult. In the worst year, 1993, exports dropped to less than USD 9 bn. This situation changed in 1994, when exports began to grow dynamically, mainly due to the take-off in output of companies in foreign ownership. In 1998 the value of exports attained USD 23 bn, or 2.5 times the 1993 value. Even more importantly, a fundamental restructuring in exports took place. Engineering products (cars, components of cars, computer parts, etc.) became the most important commodity in Hungarian exports, accounting for more than 50% of total exports in 1998 compared to about 20% in the pre-transition years. Since 1992 the value of imports has exceeded that of exports, resulting in a deficit on the current account. The geographical distribution of foreign trade has changed considerably. The earlier main trading partner Soviet Union/CIS has lost its significance, and Germany became Hungary's trading partner number one with an over 30% share.

Foreign direct investment has been playing an important role since the beginning of transition. By the end of 1998, altogether about USD 20 bn was invested in the country. Foreign-owned companies have been the main source of the dynamic export growth (providing about 70% of total exports), the growth of productivity and modernization in general.

Table HU1: *Hungary: Selected economic indicators*

	1993	1994	1995	1996	1997	1998
Gross domestic product, real change in %	-0.6	2.9	1.5	1.3	4.4	5.1
Industrial output, real change in %	4.0	9.6	4.6	3.4	11.1	12.6
Employees in industry, annual change in %	-12.6	1.0	-5.4	-5.3	-0.7	1.6
Gross fixed investment, real change in %	2.5	12.3	-5.3	5.2	8.5	10.2
Average wages, real change in %	-3.9	7.2	-12.2	-5.0	4.9	3.5
Trade balance in % of GDP	-9.7	-9.4	-5.6	-6.8	-4.6	-5.6

Source: WIIW database incorporating national statistics, Eurostat.

Real **wages** declined during the transitional recession, but less than the country's economic performance. A strong growth of over 7% in the 1994 election year was followed by a disappointing minus 12.2% in the year of stabilization and a further decline of 5% in 1996. The real wage decline and cuts in private consumption represented a major pillar of the 1995 stabilization. Painful as it was, it helped a lot to restore the international competitiveness of Hungarian

The labour market

Population and labour force

Hungary's population has been declining over a longer period. This tendency carried on in the past ten years: the population fell from 10,355 thousand in 1990 to 10,092 thousand in 1998. As net migration is negligible, the main reason for the decline is natural decrease: over 0.3% after

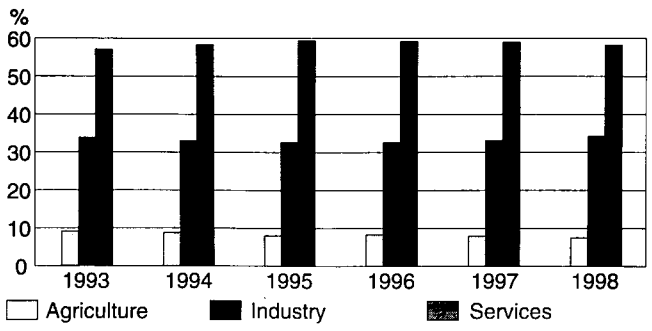
1992 and even above 0.4% in 1998. The number of births is low and mortality is very high as compared to other European countries; as a consequence, average life expectancy is low (67.2 years for men, 74.4 years for women, in 1997).

Employment

The transition to a market economy has been accompanied by negative changes in employment. The participation rate declined dramatically compared to the pre-transition years and is very low also compared to other transition countries, 52.3% — based on working-age population 15 to 74 years – in the fourth quarter of 1998. The participation rate of men was 60.5%, that of women 44.8%. The labour force in Hungary amounted to 4,011 thousand, total employment (according to Labour Force Surveys) amounted to 3,698 thousand in the last quarter of 1998. These data, however, do not cover employment in the shadow/black economy, which may amount to 20-30% of the reported GDP.

The year 1998 was a turning point in the recent history of employment in Hungary: it was the first year since the start of transition to record an employment increase, though marginal, after years of continuous decline. In total employment the share of men was 55.2% in 1998. The most important changes in the employment structure had started already in the late 1980s. Employment by broad sectors does not indicate substantial differences compared to developed industrial countries *(Figure 1)*: in 1998 the share of agriculture in total employment was 7.8%, substantially lower than in the pre-transition years (close to 20%). Also industrial employment has undergone considerable reductions over the transition period, contributing 32.6% to total employment in 1998, up from about 45% in the mid-1980s. The development of the services sector in Hungary had started earlier than in other transition countries, following the adoption of the Enterprise Act in 1988. Subsequently the small-scale privatization and the inflow of foreign capital have additionally accelerated the rapid development process of the services sector. In 1998 its share in total employment accounted for 58.2%.

Figure HU1: *Structure of employment, shares in % (LFS)*

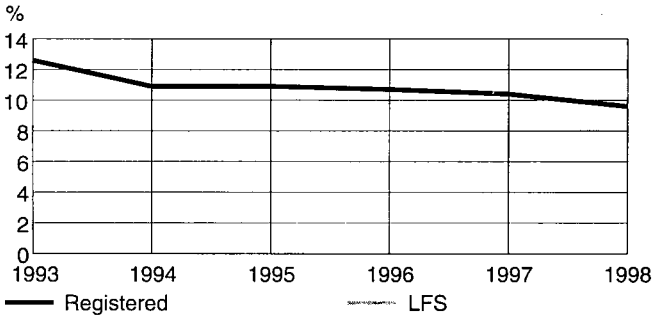


Source: Eurostat

Unemployment

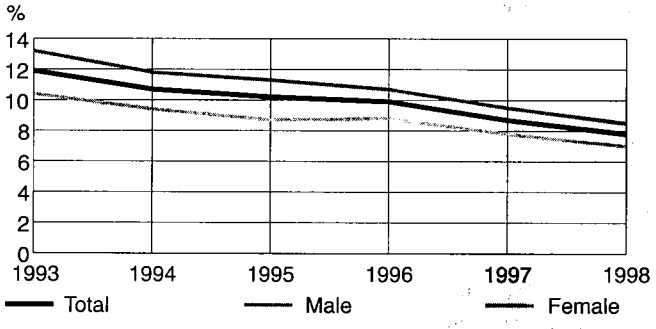
Unemployment had been marginal in the years before transition, but during the transitional recession it increased rapidly, reaching its peak value in 1993 (14% registered, 10.7% LFS unemployment rate). Although employment decreased up to 1997, the number of unemployed also declined from 1994 onwards and fell to 9.6% (registered) or 7.8% (LFS) by 1998 *(Figure 2)*. This phenomenon is explained by the fact that many left the labour force for good and training programmes appeared, absorbing part of the earlier registered unemployed. The unemployment rate of women was lower than that of men over the whole transition period, but male unemployment decreased more rapidly between 1993 and 1998 than female unemployment *(Figure 3)*. Unemployment incidence is highest among young people. The unemployment rate of the age group up to 24 years is almost double the average. *(Table 2)*

Figure HU2: *Unemployment rate in % - by registration and LFS*



Source: Eurostat

Figure HU3: *Unemployment rate in % - by gender (LFS)*



Source: Eurostat

There are important regional differences in unemployment, the respective rates are lower than the average in Budapest and the counties along the Budapest - Vienna highway and also in the counties along the Hungarian - Austrian border. Unemployment rates are higher than the average in the eastern, northeastern, and southeastern regions of the country. Long-term unemployment (over one year) was highest in 1996 accounting for almost half of total unemployed. Since then its share has been slightly

Table HU2: *Unemployment rate in % - by age groups (LFS)*

	1993	1994	1995	1996	1997	1998
Total	11.9	10.7	10.2	9.9	8.7	7.8
Less than 25 years of age	21.3	19.4	18.6	18.0	15.9	13.5
25 and more years of age	10.3	9.2	8.7	8.5	7.5	6.7
Share of long-term unemployed in total, %	32.2	41.3	45.6	49.8	46.5	44.3

Source: Eurostat, WIIW database incorporating national statistics.

decreasing, accounting for 44.3% in 1998. Among the long-term unemployed, the share of those with higher education was marginal, the share of persons with medium and low education was slightly above and beneath, respectively, 50%. The number of male long-term unemployed was double the number of female long-term unemployed. In March 1999 the number of registered unemployed (437 thousand) was 5% less than in the respective month of 1998.

Current stage of transition

In Hungary, the transition to a market economy had started with economic reforms launched already under the communist regime: the milestones were 1968 (relaxation of the Stalinist-type planning system), 1982 (permission of small-scale private businesses) and 1987-88 (two-tier banking system, tax reform, partial liberalization of foreign trade). With the political changes in 1989/90 the process certainly gained momentum. By 1993 the transformation of the legal and institutional system was completed. The core of the transition process, privatization, started in 1989 and was based on the sale of state-owned property. Restitution played a subordinate role except in the case of agriculture. Selling to foreigners was not restricted, just the opposite: foreign exchange incomes from privatization to foreign investors represented an important support in avoiding insolvency of the country in 1990-91, 1993 and in 1995. Foreign direct investment, related to both privatization and 'green-field' projects, contributed considerably to transition at the microeconomic level through increased competition, new managerial culture and integration of the domestic agents into the mainstream of the world economy in several respects. We may conclude that the transition process has arrived at its last stage in Hungary: What remains to be done is the completion of privatization as well as the reform of the health care system and of the budget of local governments and, further, the completion of the trial-and-error process that ought to lead to frictionless operation of the new legal and institutional system.

3.5. Latvia

Economic development

After a long decline in production, financial instability and high inflation, the Latvian economy stabilized during 1994-95 and started to grow afterwards. GDP increased by 3.3% in 1996 and then by 8.6% in 1997 (see table 1). An expansion of services, especially trade and transit services, and industry led the economic recovery. The food, wood processing, paper, building materials, textiles and metal-working industries were most important for the recovery process. A quarter of exports comes from wood processing making it the highest foreign currency earner in Latvian industry. Another dynamic sector is manufacturing of textiles and clothing with production increasing by 18% in 1997. In the aftermath of the Russian crisis, the GDP growth slowed down to 3.6% in 1998.

Trade has been growing rapidly, stimulated mainly by the availability of new financial services. The almost complete privatization of the sector increased sales by 20% and created many new products and contractual arrangements, especially in leasing. Agriculture plays a diminishing role in the Latvian economy. Low investment, outdated technology, a small market, low incomes and poor management contributed to a significant decline in agriculture, resulting in rising unemployment. Led mainly by poor crop harvests, agricultural production dropped by 8.7% in 1998 to about 4.5% of the GDP level.

Table LV1: *Latvia: Selected economic indicators*

	1993	1994	1995	1996	1997	1998
Gross domestic product, real change in %	-14.9	0.6	-0.8	3.3	8.6	3.6
Industrial output, real change in %	-32.1	-9.9	-3.7	5.5	6.1	2.0
Employees in industry (LFS), annual change in %	.	.	.	-1.5	-3.1	0.3
Gross fixed investment, real change in %	-15.8	0.8	8.7	22.3	11.1	.
Average wages, real change in %	5.0	8.2	-2.6	-8.8	3.6	5.3
Trade balance in % of GDP	2.5	-6.9	-11.5	-17.1	-18.6	-21.5

Source: WIIW database incorporating national statistics, Eurostat

Inflation declined rapidly, from 950% in 1992 to 36% in 1994. Stabilizing at around 20% in 1995 and 1996, it fell substantially to 8.4% in 1997 and to 4.7% in 1998. The lower inflation was partly due to tight monetary and fiscal policy pursued by the government and by the Bank of Latvia, but it may also be the result of weaker effective demand. The Russian economic crisis reduced aggregate demand in Latvia as the demand for exports declined and financial insolvency increased.

Six factors characterize **wage dynamics** during 1993 to 1998:

(1) average gross and net wages increased;

(2) real wages increased in the national economy as a whole

(3) relative wages of people employed in public education declined

(4) monthly average gross wages and salaries differ between men and women

(5) the differential between the highest and lowest wage industries was unchanged

(6) agriculture, hunting and forestry continues to have the lowest monthly average gross wage.

Labour force survey data suggest that there are considerable problems with measuring wages in Latvia, especially in the private sector. This problem is mainly due to the appearance of wage arrears. Ministry of Welfare data shows that between March 1993 and March 1998 enterprises accumulated wage arrears totalling LVL 9.7 million. Another pressing problem concerning wages is the practice of partial payment of wages and salaries 'in envelopes', mainly aimed at the evasion of taxes and social contributions. Almost everyone recognises that this practice is widespread in the private sector. The State Revenue Board estimates that 40% of private enterprises does not pay all taxes and that wood processing firms and wood product exporters are the worst offenders.

The major Latvian export and import partners in 1998 were member states of the EU. These include Germany with 16.4% of the total **foreign trade** turnover, and Sweden, Finland, and UK each with more than 6% of the total turnover. Other major trading partners include Lithuania with more than 6% of the total turnover and Russia with 1.9%. Latvia has a liberal trade policy and foreign trade represents a high share of GDP. Total exports increased by more than 10% in 1998 and by 27% (in current prices) to the EU. Main exports include wood (34%), light industry (18%), and agricultural and food products (11%). Approximately 20% of exports were from the metals, machinery, and transport equipment industries. Exports of agricultural products and food have decreased in 1998 because of the financial crisis in Russia. Imports of goods increased by 18.9% in 1998. About 20% of imports were machinery and equipment and another 10% includes energy resources. The trade balance shows a growing deficit, reaching about LVL 660 mn in 1998 or 17.6% of GDP.

Inward **foreign direct investment** has steadily increased during the 1990s, doubling from 1991 to 1996. Foreign investment in Latvia was LVL 2,393 mn at the end of 1998, reaching a stock of USD 610 per capita. Most foreign investments are loans and deposits in Latvian credit institutions and investments in fixed assets of enterprises. Foreign direct investments represent only 34% of the total (LVL 750 mn). Major investors come from Denmark (16% of the total), USA (11%), Russia (11%), Germany (8%) and the United Kingdom (8%). Besides green field projects, a large part of investments comes through privatization of the former state owned companies. Among the largest was the sale of a 32.5% stake of the Latvian Gas to the German consortium Ruhrgas/Preussen Elektra and the Russian gas company Gazprom.

The labour market

Population and labour force

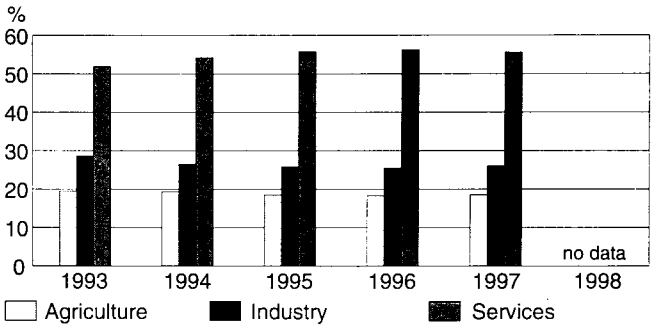
The population of Latvia decreased by 170 thousand persons from 1993 to 1998. This was due mainly to emigration, a sharp decline in the birth rate and an increase in the death rate. Latvia has an aging population, with the share of pre-productive population (0-14) falling from 21% in 1993 to 19.3% in 1997. The share of the post-productive population increased to 14.3% in 1997 leaving the share of working age population (15-64 years) at 66.4% of the total population in 1997. Of the percentage of working age and post-productive population (15+ years), 69.1% of the male population and 52.9% of the female population were economically active. Similar differences appear in the employment rate: 44.7% for women and 58.8% for men.

Employment

The labour force declined from 1.4 million persons in 1989 to 1.2 million in 1997. At the same time the number of employed fell from 1.4 million to 1.0 million persons. Main reasons behind this contraction are the restructuring of the economy, market losses in the CIS countries and a slow reorientation towards Western markets. Having shown some signs of revival since the beginning of 1997 the number of employed fell again more markedly in the aftermath of the economic crisis in Russia. Between the third and the fourth quarters of 1998 employment fell by 14 thousand persons or 1.4%.

The most fundamental employment shifts between sectors occurred during the initial stage of economic transformation. Changes from 1993 to 1998 tended to be marginal, measured by both the labour force survey and registration data. The labour force survey shows that Latvia still has a high share of agricultural employment in 1998 (18.8%) which may be due to a tight urban labour market. At the same time the proportion of those employed in the services sector is among the highest in the transition countries. Rising employment in administration, financial services and retail trade may explain this trend (see figure 1). 83% of the total workforce are employees, 3% are employers, 8% are self employed, and 5% are non-paid family members and relatives working in family farms. Two thirds (68%) of the total workforce is in the private sector and 88% of the workforce are full time. At present economical situation it is often difficult to survive on wage earned at one work place. In May 1998, 50 thousand people (5% of the total number of employed) had an additional work.

Figure LV1: *Structure of employment, shares in %* *)



*) = According to registered employment

Source: Eurostat

The majority of employed has various types of secondary vocational or secondary professional specialized education. In 1997, 27% of those employed had secondary professional specialized education and 23% had a general secondary education. About 18% of those employed have higher education. In general, employed women have higher educational attainment than men.

Unemployment

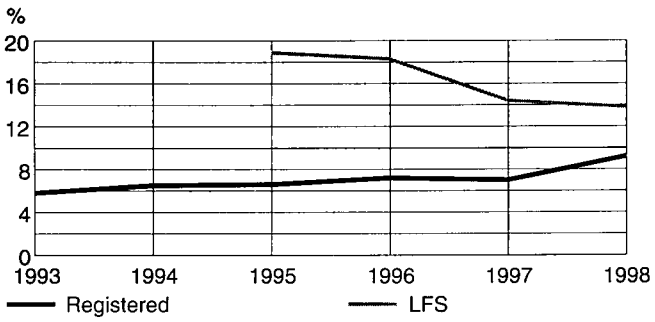
Registration of the unemployed started officially in January 1992. At the end of December the unemployment rate was 2.3%, but at the end of 1993 the rate had more than doubled to 5.8%. After reaching a peak level in May 1997, the number of unemployed fell slightly through the rest of the year, but then increased moderately from January 1998. In February 1999 116 thousand persons or 9.7% were unemployed.

There are huge differences between labour force survey data and State Employment Service data. *Figure 2* shows the difference between the two methods of collecting the data. Only about one fourth of the unemployed register with the State Employment Service, indicating that most people look for jobs through informal channels (family members, friends etc). Unemployment in Latvia is largely structural with most redundancies due to the liquidation of enterprises or enterprise restructuring.

Labour force survey data show higher unemployment rates for men than for women in the fourth quarter of 1995 and 1996. Data for the following two years indicate higher unemployment rates for women .*(Figure 3)*

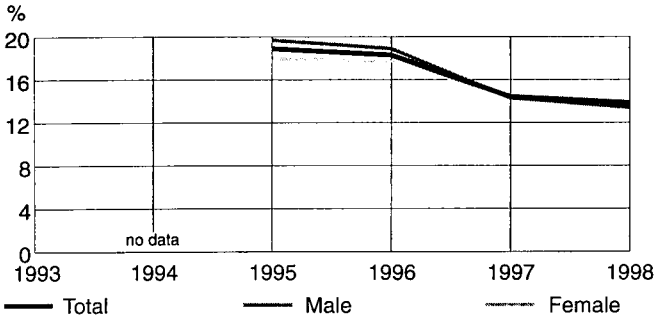
Table 2 shows that the unemployment rate is significantly higher for young people up to the age of 24 compared with the age group 25 years and over. During the 1995-97 period

Figure LV2: *Unemployment rate in % - by registration and LFS*



Source: Eurostat, WIIW incorporating national statistics.

Figure LV3: *Unemployment rate in % - by gender (LFS)* *)



*) Data refer to the 4th quarter, respectively

Source: Eurostat, WIIW incorporating national statistics

Table LV2: *Unemployment rate in % - by age groups (LFS)* *)

	1993	1994	1995	1996	1997	1998
Total	.	.	18.9	18.3	14.4	13.8
Less than 25 years of age	.	.	30.1	29.0	24.9	.
25 and more years of age	.	.	17.0	16.6	12.9	.

*) Data refer to the 4th quarter, respectively.

Source: Eurostat

the youth unemployment rate exceeded the average rate by about 10 percentage points per annum. About 45% of job seekers have no work experience, which underlines the difficulties involved with entering the labour market. 16% (or 12,600) of them were without work after graduation or after leaving school. This indicates that the education system and the labour market are not in balance. Young people without education find it difficult to enter the labour market, as they lack the necessary knowledge and skills. An analysis of the unemployment skills also shows that the majority of the unemployed has only a general education without any professional qualifications.

The share of long-term unemployed (seeking a job for more than one year) in total unemployed has declined from 37.7% in September 1997 to 31.3% in September 1998. This was partly due to the economic recovery in 1997. By contrast, labour force survey data indicate that about 60% were unemployed for more than one year in May 1997, compared with 54.6% in May 1998.

Current stage of transition

International credit rating agencies recently gave Latvia a relatively high rating. *Moody's* gave Latvia an ‚A' rating and *Standard and Poor's* put Latvia in ‚BBB' category for long term currency debt, both among the highest of the countries in transition. These ratings reflect success of market-based reforms. With the first phase of transition broadly completed, the main challenge now is to secure the gains and continue with a further deepening of structural reforms. But these reforms should also include public policies that ensure a well functioning labour market.

3.6. Lithuania

3.6.1. Economic development

Lithuania re-emerged as an independent state on the world map only eight years ago. At the outset, it had to grapple with the legacy of fifty years of Soviet rule, which meant dismantling the central planning system while at the same time establishing the institutions required by an independent state such as an independent central bank and currency.

Macroeconomic stabilization was a compelling challenge, as the widespread liberalization of prices from 1991 to 1992 resulted in a surge of annual inflation to four-digit levels: CPI rose by over 1,000% in 1992. At the same time economic activity declined at a rapid pace for a number of reasons. Lithuania, along with the other Baltic states, experienced a collapse of exports to the former Soviet Union (a demand shock) and an energy and raw materials price shock (a supply shock) in 1992, when Russia substantially increased its export prices for oil and other raw materials. The role of institutional and political uncertainty cannot be disregarded either. The main ingredient of stabilization was a fixed exchange rate regime vis-à-vis the US dollar — a currency board arrangement (CBA), which has been operational since April 1994. Given full credibility and the absence of nominal rigidities, fixing the exchange rate may stop high inflation at no real costs, but such a situation is rare.

after peaking in 1992, inflation eased in each transition year. The CPI annual inflation rate fell to 4.6% in 1998. World deflation of commodity prices and weak food prices supported this rapid disinflation. Real wage growth has been strong in recent years, but so far it has not jeopardized disinflation. After a rapid decline due to very high inflation in the first years of transition, real wages have grown since 1994, giving a stimulating impulse to aggregate demand. In 1998, they rose by 12.0%.

Lithuania's budget position has been strongly correlated with growth. Starting in 1997, the fiscal policy stance has been geared to dampening aggregate demand in order to grapple with the current account deficit. In 1994, the general government budget deficit reached 5.5% of GDP while it decreased to 1.8% of GDP in 1997. In 1998, the indicator may have worsened, as the national budget deficit, which excludes extra budgetary funds and the social security fund, was reported at 1% of GDP in 1997 and at 1.3% of GDP in 1998.

The inflation rate differential between Lithuania and its main western partners caused the litas to strongly appreciate in real terms. This is one of the main factors behind the yawning current account deficit. Other important factors are the pent-up consumer demand and the need to import investment goods in order to restructure capacities. Exports had been growing more slowly than imports in Lithuania, a common feature of economies in transition that have resumed growth. The impact of the

Table LT1: *Lithuania: Selected economic indicators*

	1993	1994	1995	1996	1997	1998
Gross domestic product, real change in %	-16.2	-9.8	3.3	4.7	7.3	5.1
Industrial output, real change in %	-34.4	-26.6	5.3	5.0	0.7	7.0
Employees in industry, annual change in %	.	.	.	.	.	.
Gross fixed investment, real change in %	.	.	.	.	.	.
Average wages, real change in %	-36.6	10.7	2.6	9.1	14.1	12.0
Trade balance in % of GDP	-8.3	-7.6	-15.6	-14.2	-27.9	.

Source: WIIW database incorporating national statistics, Eurostat

GDP had declined by a cumulative 43.3% between 1991 and 1994 according to official figures before its growth resumed in 1995. In 1996-97 economic growth accelerated, but slowed again in the third and fourth quarters of 1998 when the Russian crisis affected the economy: in the fourth quarter of 1998, GDP grew by 0.4% year-on-year only. In the whole 1998 GDP was up by 5.1%. *(Table 1)* The impact of the Russian crisis dragged on to 1999 as early indicators on January and February 1999 show. Despite a profound trade reorientation, Lithuania exported to Russia 24.5% of total exports in 1997. On the supply side, industrial output recovery supported GDP growth. The resumption of economic growth has helped (with a lag) to alleviate the problem of high unemployment, which rose rapidly in 1993.

The fall in the **inflation** rate to moderate levels in 1995 (39.6%) was concomitant with a resumption of economic growth. In fact,

Russian crisis was reflected in a decline of exports in dollar terms in the second half of 1998. Due to these developments, the trade gap and the current account deficit have been growing since 1994; they rose to 19.5% and 12.1%, respectively, of GDP in 1998. This makes Lithuania vulnerable to fluctuations in capital flows. The large current account deficit is still sustainable, but is exposing Lithuania to volatility of foreign capital flows. The country has weathered the Russian crisis so far, without a significant drop of foreign exchange reserves which grew in 1998, though the increasing trend was broken by the impact of the Russian crisis. The national debt was below 25% of the 1998 GDP (LTL 9.6 billion), a moderate ratio by international standards, about 71% out of which is foreign debt. The short-term component of foreign debt is very small, so the threat to the exchange rate stability from this factor was negligible.

The labour market

Population and labour force

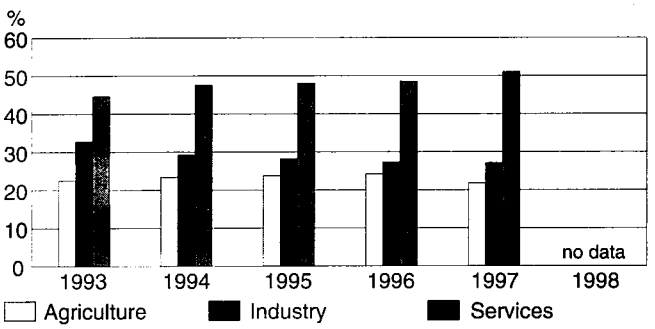
The population of Lithuania slightly declined during the period of transition, first due to emigration and later due to negative natural increase as well. The migration balance, which had been positive before transition, became negative in 1991and zeroed back for the first time in 1997, while the natural increase turned negative in 1994-97. In 1998, the country had slightly over 3.7 million inhabitants, 32% of which lived in rural areas. The working-age population (15 to 64 years) remained fairly stable at around 2.5 million during 1991-97. However, transition exerted a negative influence on labour force participation, as the labour force decreased by 8.4% between 1994 and 1998: particularly affected were women aged 20-34 and 55 and older, whose rates of labour force participation fell drastically. In 1998, labour force participation rose slightly.

Employment

One qualification is indispensable before casting some light on the labour market developments in Lithuania: statistics on it are heterogeneous, incomplete and exhibit large discrepancies among sources because of methodology differences, but not only. During the transition, employment displayed a tendency to decline until 1996, but grew slightly in 1998 (measured by LFS data) as economic growth accelerated. Registration data indicate that women accounted for 49.2% of all employed persons in 1997; their share in employment fell from almost 53% in 1992, providing evidence that women usually lose jobs first in transition. Nevertheless their share is still high by international comparison.

A major share of employed persons works for the private sector. Already in 1993 private enterprises accounted for more than 50% of employment; this share rose to about 69% in 1998. The fall in employment in the production sector is one of the key structural developments in most countries in transition. The origins of it were the collapse of output and, later on, the restructuring efforts. The share of employment in agriculture remained high over the transition period, growing until 1996, while the share of employment declined in industry and rose in services (agricultural employment rose in absolute numbers as well). *(Figure 1)* Employment in agriculture acted as a buffer against unemployment when opportunities to find jobs in industry, construction and transport diminished in the first years of transition and even when growth resumed. The increase in employment in agriculture was induced by the return of private land. Hidden employment (paid work without a legal employment contract) is rather widespread in Lithuania, as can be derived on the basis of the survey of the population; this phenomenon displays high seasonal fluctuations. It is widespread in agriculture, construction and services of maintenance and trade.

Figure LT1: *Structure of employment, shares in %* *)



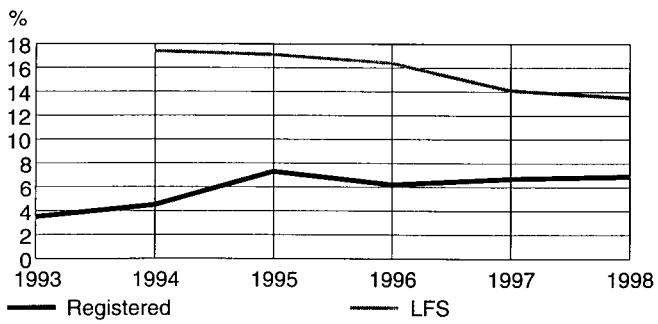
*) = According to registered employment

Source: Eurostat

Unemployment

During the transition period unemployment rose practically from zero due to the contraction of the economy. In 1991-92, few individuals were registered, but then the number of registered rose steadily. According to the Labour Force Surveys (by Eurostat methodology) the rate of unemployment reached 17.4% in 1994 (the first time such a survey was conducted) and then started declining, reaching 13.5% in 1998. *(Figure 2)* The share of women in unemployment was 44% in 1998, declining from 1997, so the incidence of unemployment among women was not significantly higher than among men. Registered unemployment is much lower, 6.9% in 1998, but grew considerably during the first months of 1999, reaching a 8.1% unemployment rate in February — a clear impact of the Russian crisis. The incidence of unemployment among persons less than 25 years of age is the highest and stood at 22.9% in 1998 (LFS). But it also displayed the strong tendency to decrease, as it had reached 32.1% in 1994. The unemployment rate among people older than 25 years was 12.1% in 1998, down from 15.1% in 1994. *(Table 2)* According to the Lithuanian Labour Exchange information, unskilled persons and persons with only vocational education constituted about 77% of the jobless. There were around 15.2 thousand (12.4%) long-term unemployed persons among 122.8 thousand jobless people at the end of 1998, so it was not acute.

Figure LT2: *Unemployment rate in % - by registration and LFS*



Source: Eurostat

Table LT2: *Unemployment rate in % - by age groups (LFS)*

	1993	1994	1995	1996	1997	1998
Total	.	17.4	17.1	16.4	14.1	13.5
Less than 25 years of age	.	32.1	31.6	27.4	26.2	22.9
25 and more years of age	.	15.1	15.1	14.8	12.3	12.1

Source: Eurostat

Current stage of transition

Lithuania has liberalized its economy to a great much extent. However, data on the share of administered prices in the CPI were unavailable as of writing. Lithuania, as mentioned earlier, has maintained a stable exchange rate and an open trade regime. The country applied for WTO membership, but still maintains relatively high tariffs on grain, oil products and sugar — a problem that has yet to be resolved before the country is admitted. In general, Lithuania has made strong inroads to adopt the legal framework of a modern market economy, which is to be harmonized with EU legislation. This process is continued as integration with the EU has become the priority. The reduction of direct state subsidies to 0.9% of GDP in 1997 was accompanied by off-budget support to enterprises in the form of tax exemptions and arrears. The stock of tax arrears was evaluated at 3% at the end of 1997.

Small privatization was completed at an early stage of transition. Until 1995, the main privatization method was voucher privatization by means of which about 30% of state enterprise assets were privatized until mid-1995. Then the strategy shifted to cash sales, but revenues were initially rather small because of the lack of attractive offers and the strings attached. The inclusion of so-called strategic enterprises into the privatization programme in 1997 accelerated the privatization process, as these enterprises were offered in international tenders. Since 1998, the existing regulation that all privatization cases go through tenders was given up and the government engaged in direct negotiations with potential investors in order to accelerate the process. This may yet lead to an excessive politicization of procedures. Voucher privatization has resulted in the overspread control of enterprises by insiders, however, there is no convincing evidence that it has adversely affected enterprise performance so far.

Key reform challenges are the privatization of infrastructure and the remaining large state banks and, in this context, strengthening the enforcement capacity of regulatory agencies. Despite the stepped-up privatization, there exist concerns about the transparency of direct sales procedures. The planned privatization of Agricultural Bank and State Savings Bank prove uneasy, but its success would considerably strengthen the banking sector.

3.7. Poland

Economic development

Poland's economic transformation started in the winter of 1989/90 with a shock therapy aimed at achieving macroeconomic stabilization. To prevent hyperinflation and the depletion of foreign reserves, a set of highly restrictive monetary and fiscal measures was introduced. Interest rates were raised to very high levels and the Polish currency was strongly devalued — and then fixed. At the same time, there was an extensive liberalization. Almost all restrictions on private activities, including in foreign trade, were abolished, prices generally freed, and the currency became convertible on current account transactions. The state-owned firms became independent in all respects, though wages continued to be controlled.

The shock therapy had devastating effects on production, employment, real wages, consumption and investment. Industrial production fell by 24% in 1990 and by 12% in 1991. Cumulatively, the GDP fell by close to 20% (1990-91). At the same time high inflation continued (580% in 1990 and 70% in 1991). But the massive fall in domestic demand was responsible for high trade and current account surpluses which strengthened foreign reserves. And small-scale private activities, primarily in the service sector, grew strongly. *(Table 1)*

Table PL1: *Poland: Selected economic indicators*

	1993	1994	1995	1996	1997	1998
Gross domestic product, real change in %	3.8	5.2	7.0	6.1	6.9	4.8
Industrial output, real change in %	5.6	13.1	10.2	9.0	11.2	4.8
Employees in industry, annual change in %	-2.2	-0.9	3.0	-0.7	-0.1	-0.7
Gross fixed investment, real change in %	2.3	8.1	17.1	19.2	22.2	14.5
Average wages, real change in %	-2.9	0.5	3.0	5.7	7.3	5.1
Trade balance in % of GDP	-5.3	-4.7	-4.9	-8.9	-11.6	-11.6

Source: WIIW database incorporating national statistics, Eurostat

By the end of 1991 the previous policy became socially, politically and economically unsustainable. The initially undervalued currency eventually appreciated too much and high trade deficits appeared. Depressed incomes resulted in low tax revenues, but further cuts in budgetary expenditures were impossible. High budget deficits emerged. The high interest rates, maintained for much too long, eventually drove the economy close to a generalized debt crisis that threatened the stability of the banking system. The tax policy towards state-owned firms hindered restructuring and yet did not help privatization.

The policies of the consecutive governments since the end of 1991 first pulled the Polish economy out of the crisis caused by the excessive macro austerity and naive laissez-faire attitudes prevailing in 1990-91, and then put it on a growth path. The fixed exchange rate regime was replaced first with a crawling peg and, later on, with progressively free-floating arrangements. Trade policy was revived — tariff rates increased and non-tariff protection was re-instituted. The governments had to live, for a while, with high budget deficits. These, in turn, helped to arrest a further output decline. Interest rates, though generally still quite high, were brought down to more acceptable levels. To defuse the debt crisis, a three-year programme of financial rehabilitation and restructuring of firms and banks was started in 1992. The discriminatory tax policy towards state-owned firms was abandoned; at the same time a well-designed multi-track privatization policy was instituted.

The pragmatic, if risk-averse, policies during 1992-97 met with spectacular success: the GDP increased 36%, industrial production 62%, labour productivity in industry 80%, average real wage 12%, and gross fixed investment 90%; exports more than doubled, the inflation rate declined from 43% to 15%, the registered unemployment rate (which peaked in 1993 with 16.4%) came down to 10.3%. The recovery, at first sustained by deficit spending, was later (1993-95) led by strong exports and afterwards by booming investment. The strong growth allowed for a reduction of budget deficits (to below 3% of the GDP) and of public debt (below 50% of the GDP). Productivity gains generated high profits that permitted high investment and solved the debt problem. The banking system was rehabilitated (the share of classified credits fell from over 30% to about 10%). Official reserves rose from USD 3.8 billion to 20.7 billion and gross public foreign debt declined from USD 48.5 billion to 38.5 billion.

The unquestionable success of the Polish economy was possible not only because of sound and flexible fiscal, banking and trade policies. Also systemic-institutional changes (introduction of VAT in 1993, reform of personal income tax in 1996, ongoing reforms of various pieces of economic legislation including on protection of fair competition etc.) mattered. Of crucial importance was the rise of the private sector, whose share in the GDP increased from about 42% to about 65%. The expansion of the private sector has not been directly related to the privatization of state-owned firms. Out of over 6,800 non-agricultural state-owned firms (as of end-1991) only about 2,000 were actually privatized before the end of 1997 (and about 2,000 were still under privatization). Meanwhile the number of registered private firms increased from about 1.5 to over 2.6 million. Unlike in some other transition countries, Poland's economy

becomes increasingly private primarily because of the unleashed forces of creative entrepreneurship and not through passive acquisition of pieces of decaying state property. Remarkably, unlike in Hungary, the achievements of 1992-97 are certainly due to Poles' own efforts. Foreign direct investment, which long played a marginal role in Poland (total stock of USD 0.6 billion at end-1991, USD 4.3 billion at end-1994), entered only later, as the economy was already in full swing (during 1995-97 the FDI inflow totalled USD 13.3 billion).

The labour market

Population and labour force

Poland's population (38,660 thousand at end-1997) has stabilized. The natural increase (crude) rate has been declining (0.8% in 1997), the net reproduction rate stands at 0.72. Despite this, only 11.5% of the population are 65 years and older (22% are less than 14 years old). Life expectancy at birth is 77 years (females) and 68.5 (males) respectively.

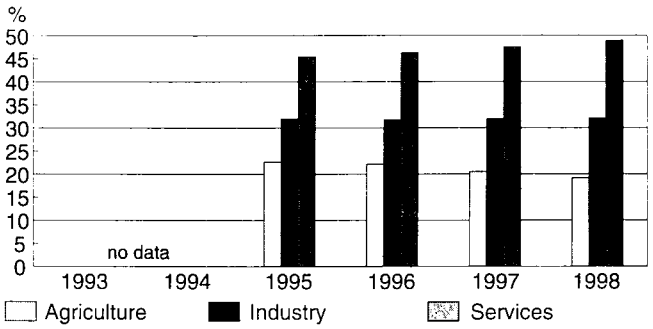
External (permanent) out-migration is low (20,222 persons in 1997). In 1997 a total of 8,426 foreigners settled in Poland. Internal (permanent) migration is also quite low and declining, largely because of high rents. The net internal urban migration rate was 0.7% in 1996.

The activity rate based on the working-age population 15 years and over was 57.4% in 1998 (down from 60.9% in 1993). The rates estimated from the data provided by unemployment registers are much higher (e.g. 78.7% in 1997). The labour force participation rate for women was about 50% in 1997. Poland has the fastest rising working-age population in Europe, by some 200 thousand per year.

Employment

During the initial period of transition (1989-92), the Polish economy experienced more than 2 million job losses. Employment stopped falling in 1994 according to the employment register, while measured by the Labour Force Survey only in 1995; but the increases in the subsequent years were very modest. Employment statistics do not reflect the strong GDP growth over recent years, implying significant productivity increases: while GDP grew cumulatively by 27.4% in the 1993-97 period, employment was up by 1.9% (LFS) and 7.7% (by registration data) respectively. The wide gap between the two measures is mainly resulting from the different employment definitions, especially of employment in agriculture. Private sector employment has been steadily on the increase, accounting for close to 70% in total employment in 1998 (based on registration data). The employment pattern in Poland differs considerably from that of other advanced transition countries. There is still a high proportion of employment in agriculture (about 26% in 1997), while the services sector share accounts for 44%. Register data also indicate only very slight changes of employment shares over the 1993-97 period. Survey data convey a somewhat different picture, with the share of agricultural employment given at 20.5% and 19.1% respectively in 1997 and 1998 and a higher proportion of those employed in the services sector (1997: 47.5%; 1998: 48.9%). *(Figure 1)*

Figure PL1: *Structure of employment, shares in % (LFS)*

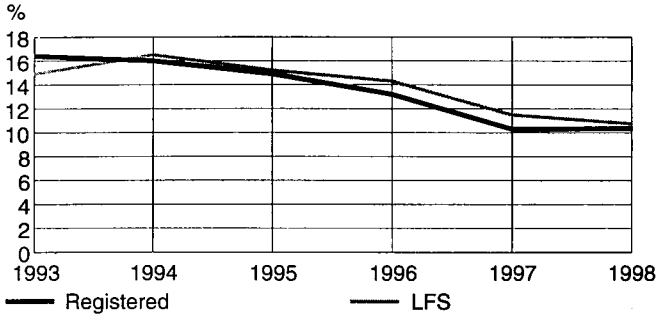


Source: Eurostat

Unemployment

Since 1993 the number of unemployed and the unemployment rates have been falling, reaching 1,831 thousand persons or 10.4% in December 1998 according to registration data. Labour Force Survey data differed only slightly, with the number of unemployed totalling 1,816 thousand persons or a 10.6% unemployment rate. *(Figure 2)* Recently the trend seems to have changed: the rate and number of unemployed have increased, which may reflect the overall growth slowdown. In February 1,999 total jobless numbered 2,147 thousand persons, corresponding to an 11.9% unemployment rate. Unemployment incidence is high among young people, close to one third of the unemployed are within the 15 to 24 age range; in 1998 the youth unemployment rate (23.3%) was more than twice as high as the average value. *(Table 2)* Over the whole period women were more affected by unemployment than men, representing over 50% of the total jobless; most of them have low professional skills; almost half of the female unemployed have been out of work for more than twelve months. *(Figure 3)*

Figure PL2: *Unemployment rate in % - by registration and LFS*



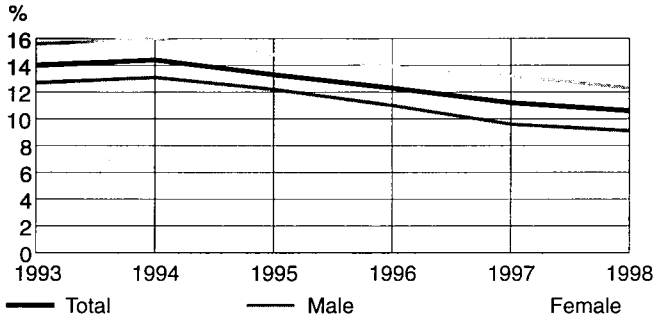
Source: Eurostat

Table PL2: *Unemployment rate in % - by age groups (LFS)*

	1993	1994	1995	1996	1997	1998
Total	14.9	16.5	15.2	14.3	11.5	10.6
Less than 25 years of age	30.0	32.5	31.2	28.5	24.8	23.3
25 and more years of age	11.7	11.9	10.9	10.1	9.3	8.8
Share of long-term unemployed in total, %	33.5	38.6	40.5	40.0	39.1	37.9

Source: Eurostat, WIIW database incorporating national statistics

Figure PL3: *Unemployment rate in % - by gender (LFS)*



Source: WIIW incorporating national statistics

Current stage of transition

In 1998 the growth of the Polish economy slowed down (the GDP growth rate was 4.8%). In 1999-2000 the growth rates will, most probably, be lower (3-4%). At the same time the inflation rate will fall further (in 1998 it equalled 11.8%). The slowdown, which has already been reflected in rising unemployment, has internal and external causes. Internally, it is an intended effect of the macroeconomic policy in late 1997 and early 1998, which was concerned with a too strong expansion of domestic credit and fast growth of trade and current account deficits. The 'cooling down' stipulated rising interest rates and some fiscal tightening. Externally, Poland was affected, via falling exports, by the crisis in Russia, an important trading partner. Generally, the export performance in 1998 was rather weak also on account of sustained appreciation of the Polish currency — which, in turn, was due to high capital inflows. The ongoing change of policy on interest rates and the weakening of the currency make a return to fast growth quite likely. At the same time Poland is an unlikely victim of a financial crisis.

In 1999 three fundamental institutional changes have been instituted: the system of regional administration and self-government was radically changed; the public health care system was completely reformed; and a new three-pillar pension system was inaugurated. Also in 1999 the system of public education will be radically reformed. Besides this, the government has started radical restructuring of some reform-resistant industrial branches (coal mining, steel and energy sector etc.).

Whether or not the reforms themselves will eventually prove beneficial — there are many doubts about this — they have already provoked serious social tensions and are likely to be economically costly, at least in the short run.

3.8. Romania

Economic development

Romania ranks among the Accession Countries that have undergone the most pronounced contraction of output. GDP is at about 78% of its pre-transition level. In 1997 Romanian per capita GDP was equal to 31% of the EU average in terms of purchasing power standards. Furthermore, there is a trend towards de-industrialization: within ten years, the industrial production fell back to one half, while the share of agriculture increased to 28% of GDP. The rate of GDP decline in 1997 was as large as 6.6%, as tight monetary and fiscal policies curtailed domestic consumption and fixed capital formation. In 1998 GDP fell even more, by 7.3%, and industrial production contracted by 17%. The restrictive policy expected in 1999 may trigger another GDP decline of about 4%.*(Table 1)*

January and February 1999 the monthly inflation rate was already 3%, and in March 6.4%. The annual average for 1999 is expected to about 50%.

Average monthly **wages** in Romania denominated in ECU were in the first half of the 1990s as low as 90, and slightly above 100 during the period 1995-97. It is worth noting that only about half of the employed population are wage earners, the rest are self-employed, mainly in agriculture. Real wages were on the rise during the 1995-96 recovery period. Later on the high inflation rates and restrictive wage policies undermined them: in 1997 real wages were back to the 1994 level. In 1998 real wages increased and real currency appreciation pushed gross ECU wages up to 136 per month, in the first quarter of 1999 they were down to 100, as a result of more restrictive wage policies, accelerating inflation and the depreciation of the leu.

Table RO1: *Poland: Selected economic indicators*

	1993	1994	1995	1996	1997	1998
Gross domestic product, real change in %	1.5	3.9	7.1	3.9	-6.6	-7.3
Industrial output, real change in %	1.1	3.3	9.4	9.9	-5.9	-17.0
Employees in industry, annual change in %	-7.0	-5.3	-8.4	-1.1	-5.5	-11.5
Gross fixed investment, real change in %	8.4	26.4	10.7	3.1	-19.0	-18.6
Average wages, real change in %	-16.8	0.2	11.8	9.2	-22.4	6.0
Trade balance in % of GDP	-6.2	-3.2	-6.7	-9.5	-8.2	-9.2

Source: WIIW database incorporating national statistics, Eurostat

Following the deep transitional recession of the early 1990s, there was a robust recovery in 1995-96, accompanied by increasing current account and budget deficits. Unprofitable state-owned enterprises were subsidized. Expenditures were financed mainly by foreign credits that fall due in 1999-2000. The reform-minded government that came into power in late 1996 made efforts to liberalize and stabilize the economy and to speed up privatization and restructuring — but the results were insufficient to avoid the liquidity crisis.

Romania has been on a stop-go **inflation** track for the last ten years. The annual averages of 155% in 1997 and 59% in 1998 also conceal hectic fluctuations. The price and exchange rate liberalization introduced in the first quarter of 1997 triggered a jump of inflation. The restrictive monetary and wage policies applied between March and July succeeded in accommodating the inflation. Later on the accelerating monetary expansion accompanied by increasing wage claims, excessive severance payments and repeated increases of public service fees resulted in higher inflation rates: the 5% monthly average in the fourth quarter of 1997 further increased to over 7% in February 1998. By mid-1998 the exchange rate anchor brought inflation down to 1% per month at the expense of an expanding trade deficit. This situation forced the National Bank to change its policy in October, allowing depreciation of the national currency (leu) and accelerating inflation. In

Before 1990 Romania had had a very egalitarian wage structure. In the last eight years wage differentiation has increased in every respect. Industrial wages represent the average level, while wages in agriculture and in the commercial sector are lower by 30% and 20%, respectively. Relatively high are wages in the energy sector and financial services, amounting to the 1.8- and 3-multiple of the average. It is worth noting that companies in the latter two sectors are mainly state-owned and loss-making while in the branches with lower than average wages the private sector prevails.

The total volume of **foreign trade** in Romania is less than 50% of GDP. In 1998 the export to the EU represented 65% of the total, while export shares to crisis-hit destinations such as Russia and Asia declined. There was very little change in the commodity structure of the foreign trade in the last five years. In Romanian export low-value-added goods prevail. Items such as textiles, clothing, footwear and furniture account for about half of the exports; most of the other half is steel and chemicals. These goods have mostly stagnating or declining world demand.

The excessive foreign trade and current account deficits of 1996 were only slightly corrected in 1997. The trade balance was slightly improved due to contracting domestic demand. In 1998 the deficits increased again as a result

of expanding domestic demand and the real appreciation, which stimulated imports. The 1998 current account deficit reached some USD 3 billion, or 7.9% of GDP. Since October 1998 economic policy is aimed at accommodating the foreign trade deficit by depreciation, import surcharges and other measures aimed at contraction of the domestic demand.

The total amount of **foreign direct investment** in Romania is about USD 5 billion, of which USD 2 billion alone were received in 1998, as a result of accelerated privatization. Official statistics cover only FDI gained outside privatization, reporting FDI stocks of USD 3.65 billion as of end-1998, located in 63 thousand companies. According to these statistics, the main investing countries are the Netherlands (14.8%), Germany (10.3%), Italy (8.0%), France, the USA and South Korea.

The labour market

Population and labour force

The population of Romania has been steadily decreasing since 1991 due both to negative natural increase and net out-migration. The liberalization of birth control and growing financial uncertainty both contributed to the fall of birth rates, reaching a level of 10 per thousand inhabitants in 1997. The mortality rate increased, contributing to the ageing of population. Emigration was high especially in 1990 and 1991 when mostly members of the German ethnic group left the country. In recent years emigration levelled off at 20 thousand persons per year, most of the emigrants being of Romanian nationality.

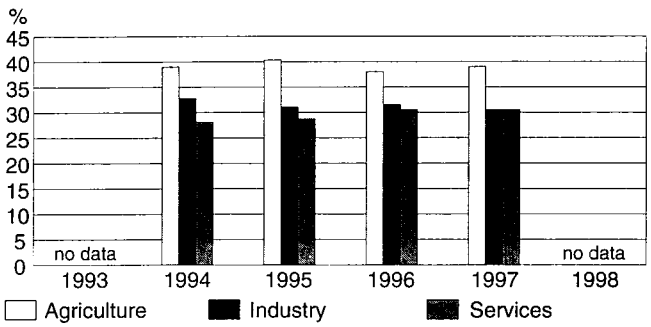
The demographic processes resulted in a steady increase of the working-age population (15 to 64 years) relative to the total population, the share being 67.8% in 1996. In the same year the labour force represented 64.8% of the population aged more than 15 years. In the second quarter of 1998 the rate stood at 65.4%. The activity rate of females was 59%, which was a lower than average value. For the population group aged between 25 and 49 the activity rate was above 80%. Among females the age group between 25 and 44 achieved an activity rate of 80%. The activity rate is higher in rural areas where the participation of the younger and of the elderly people in agriculture is higher than average. Agricultural works cause seasonal fluctuations in activity rates; 61.1% in the first quarter of 1998 compares to 65.4% in the second quarter.

Employment

The employment rate among the population aged 15 years and more stabilized at about 60% during the period 1994-98. In 1996, 47.4% of the employed persons were women — a relatively high share in international comparison. Employment rates are subject to similar seasonal fluctuations as the activity rates.

A specific feature of Romania is the high share of employed persons in agriculture, being on average about 40% during the period 1995-98. During the same period, there was also a trend of declining employment shares in industry and increasing shares in services. The two shares were equalized in 1998. Compared to the late 1980s, agriculture and services gained considerably, at the expense of industry. (*Figure 1)*

Figure PL1: *Structure of employment, shares in % (LFS)*



Source: Eurostat

The slow progress of privatization was reflected in the structure of employment by ownership. The share of the private sector exceeded 50% only in 1996 and increased to some 57% by 1998. Agriculture was privatized in the early 1990s, giving rise to a large share of agricultural employment in total private sector employment. In 1996 half of the private sector employees were engaged in agriculture, most of them being self-employed or salaried family members. The private sector share in manufacturing employment was a mere 9% in 1996 (second quarter), but increased to 14.5% in the following two years.

The educational level of Romanian employed is rather high: 63.7% have more than just basic education and 8.3% have university degrees. 20.8% of the employed have vocational school or apprentice school certificates, but the share of such certificate holders differs by gender: 28% for men, 12.5% for women. The 3.5% share of university degree holders among women is also much lower than the average.

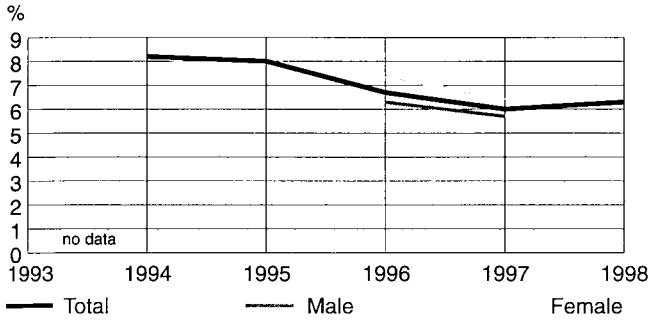
Unemployment

Unemployment, unknown under the communist system, increased dramatically in 1990-92 and reached about one million persons, stagnating at that level until March 1996. This corresponded to an unemployment rate of 8-9%. In March 1996 the benefits to a significant group of unemployed were terminated; as the latter were not looking for jobs, they were no longer considered as unemployed. During the subsequent two years some seven hundred thousand persons were unemployed, which corresponded to an unemployment rate of about 6%. Their number peaked in 1998 due to the increasing layoffs in industry.

Up to 1996 almost half of the unemployed were women; their share declined to 44% in 1998. The unemployment rate among women was considerably higher than among men in the mid-1990s, with the gap declining later (second

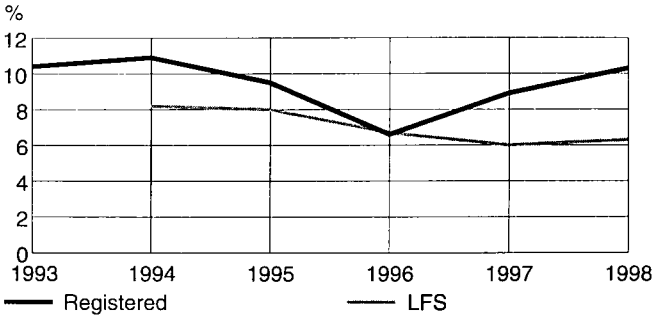
quarter 1996: male 5.6%, female 6.3%). *(Figure 2)* 1998 figures show higher male than female unemployment rates (5.7% versus 5.5% in the second quarter). In 1997 young people up to the age of 24 years were hardest hit. The share of middle-aged people among the unemployed was only 50% in 1996 and increased to 55.6% by 1998. *(Table 2)* The data indicate that the recent expansion of unemployment affects more the middle-aged, male industrial workforce than other strata.

Figure PL2: *Unemployment rate in % - by gender (LFS)*



Source: Eurostat

Figure PL3: *Unemployment rate in % - by registration and LFS*



Source: Eurostat

preferential conditions. Privatization and corporatization did not affect utilities and mining, representing about half of the economy. Ownership relations in a large part of the partially privatized companies are not transparent. The private economy is to a great extent part of complex webs of public-private asset stripping and profit dissemination.

In 1997, the privatization process was accelerated: 1,300 mostly smaller companies were privatized and the share of

Table PL2: *Unemployment rate in % - by age groups (LFS)*

	1993	1994	1995	1996	1997	1998
Total	.	8.2	8.0	6.7	6.0	6.3
Less than 25 years of age	.	22.5	20.6	20.2	18.0	.
25 and more years of age	.	5.3	5.4	4.2	3.8	.
Share of long-term unemployed in total, %	.	.	.	.	44.3	.

Source: Eurostat

It is worth noting that the recent increase in unemployment hardly turns up in the Labour Force Survey (LFS) but is reflected in the unemployment register. LFS and registered unemployment rates were equal in 1996: 6.7% and 6.6%, respectively. *(Figure 3)* As of end-1998, the LFS unemployment rate was even lower, 6.3%, while the registered rate increased to 10.3%. The reason for the growing discrepancy may be that the workforce of companies undergoing downsizing register as unemployed in search of a new job before the former employment officially expires.

Current stage of transition

Before 1997 only agriculture as well as small companies in trade and services were privatized. The rest of the economy underwent partial privatization by vouchers. Some companies were sold to the management and employees under the private sector in GDP reached 58%. In 1998 the total number of privatized companies was somewhat lower, but 430 larger enterprises were privatized. The main method of privatizing smaller companies is auctions; for medium-size and large enterprises auctions, direct sales and public tenders were applied. The share of the private sector in GDP increased to 62% by 1998.

Price liberalization is completed for tradable goods, while in public utilities prices are still regulated. Foreign trade liberalization is in accordance with international agreements, such as the Association Agreement with the EU, the CEFTA agreement and WTO rules. A monopolistic position is still present in the field of utilities and insurance.

3.9. Slovakia

Economic development

Slovakia emerged as an independent state on 1 January 1993 after the split of the former Czechoslovak Federal Republic. As regards macroeconomic stabilization, Slovakia was one of the most successful among the transforming countries. After the initial transitional shock, the real GDP started to grow in 1994. From 1995, the annual GDP growth rate was close to 7% three years in a row, accompanied by single-digit inflation rates. A slowdown of GDP growth to 4.4% occurred in 1998. *(Table 1)* Forecasts assume a further deterioration related to the current problems of both external and internal balances. Slovakia is a small open economy with an about one-half share of trade in total GDP. The 1994 recovery was mainly export-driven. Soon afterwards imports started to grow more rapidly than exports, contributing to the developing external imbalance with external debt close to half of GDP. Currently both trade and current account are in deficit.

Cumulatively the costs of living have increased by more than 300% since the year 1989.

The labour market

Population and labour force

The current demographic situation of Slovakia is relatively good. Mostly due to strong generations born in the 1970s, productive-age population is still growing both in absolute and relative terms. The shares of the pre-productive, productive and post-productive age groups in the total population are 20%, 63% and 17%, respectively. The dependency ratio (defined as the ratio of post-productive to productive population) has been declining over the transition period and is expected to start growing in the first decade of the next century.

However, the Slovak population is entering a process of ageing. During the transition period the natural population increase has been reduced dramatically, from almost five to roughly one person per thousand inhabitants. This was caused mainly by the sharp reduction of birth rates. The current development is reflected in a new alarming tendency: despite annually increasing absolute numbers of women in fertile age, the absolute numbers of live births are persistently decreasing.

Table SK1: *Slovakia: Selected economic indicators*

	1993	1994	1995	1996	1997	1998
Average wages, real change in %	-3.6	3.0	4.4	7.2	6.6	2.7
Employees in industry, annual change in %	-5.0	-5.5	0.8	-1.5	-3.2	.
Gross domestic product, real change in %	-3.7	4.9	6.9	6.6	6.5	4.4
Gross fixed investment, real change in %	-5.4	-4.6	5.3	39.8	14.5	11.0
Industrial output, real change in %	-3.7	4.9	8.3	2.5	2.7	5.0
Trade balance in % of GDP	-7.4	0.6	-1.1	-12.2	-10.3	-11.3

Source: WIIW database incorporating national statistics, Eurostat

Wage growth in Slovakia has been relatively modest. By 1998 nominal wages grew by more than 300%, but in real terms they were hardly catching up with the level of 1989. Wage grids stipulated by law achieved an implicit regulation of wage growth. Explicit wage regulation was applied in the form of tax-based income policies. However, the latter was applied only sporadically and for shorter time periods. A minimum wage was introduced in 1991 at a level of approximately one half of the average wage in the national economy. By 1998 the ratio of minimum wage to average wage declined to about one third. The minimum wage was often blamed to provide serious disincentives to employment, as during certain periods it was very close to the living minimum guaranteed by the social security system.

Inflation in Slovakia has been relatively low. Starting in 1995, both consumer and producer prices were increasing annually by close to 10%. Inflation as perceived by the inhabitants can be expressed also in terms of the cost-of-living index. The index is based on data from regular household budget surveys. The most dramatic annual increase of the index occurred in 1991: after the price liberalization it jumped by 56% as compared to the previous year. Since 1995 the increase has been only at single-digit levels.

According to the latest population census of 1991, the population of Slovakia was close to 5.5 million. Between 1993 and 1997 the Slovak population increased by some 40 thousand people. A positive migration balance has contributed to this increase: according to the Slovak Statistical Office, during the period 1993-97, Slovakia gained 13.4 thousand inhabitants through migration. The foreign population in Slovakia, although growing in absolute terms, still represents less than 1% of the total population.

Until 1994 there was a relatively sharp decline of overall labour force participation, disproportionately burdening women. Since 1994 the participation rate has been stabilized, both for men and for women. Participation rates based on Labour Force Survey (LFS) data and population aged 15 to 64 years indicate the current values in Slovakia to be around 69% for men and 52% for women. The low retirement age for women (53 to 57 years) is manifested in

a dramatic reduction of their participation rate after 55 years of age.

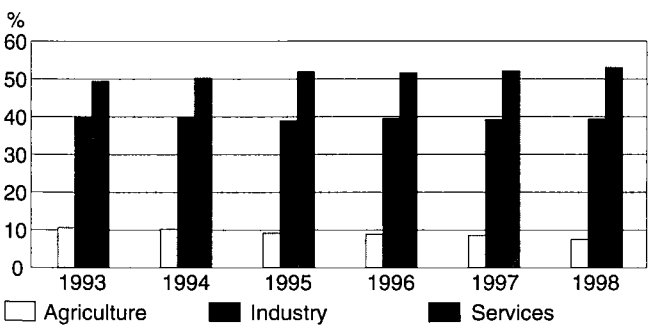
Employment

The initial period of economic transformation in Slovakia was accompanied by a sharp decline of employment. According to registered data, the cumulative reduction of total employment since 1989 has been close to 20%. Employment has declined both in absolute terms and relative to the productive-age population. Under conditions of economic growth, the demographic development would have worked against the fall in employment. During the transition period, the strong generation born in the 1970s started to enter productive age, thus increasing the productive population both in absolute and relative terms. Under the conditions of transitional depression, the demographic pressure was manifested more in increasing unemployment. The share of unemployed in the productive-age population increased almost twice as much as the share of economically inactive.

Certain positive tendencies in employment growth occurred in 1995-96. Since 1997 employment has been decreasing again. Registered data tend to understate total employment as compared to the information from LFS. However, the decline in employment was recently recorded also by the latter source: in 1997 total employment was back to its level of 1993. The female share in total employment is about 45%, as compared to their 50% share in the working-age population.

The share of industry in overall employment was reduced in the course of transition, as well as that of agriculture. *(Figure 1)* The released labour force was partly absorbed by the booming services sector. The share of the private sector in total employment, at about 1% in 1989, is currently at more than 60%. It is important to note that the private sector has exhibited persistently faster employment and output growth than the public sector. The growth of private employment was likely understated, especially in the early years of transition, due to the absence of effective methods of measurements in small private enterprises.

Figure SK1: *Structure of employment, shares in % (LFS)*



Source: Eurostat, WIIW database incorporating national statistics

In order to ease the labour market pressures, the Slovak authorities introduced the possibility of early retirement for unemployed persons two years before reaching the regular retirement age. There is a possibility for old-age pensioners to be employed under fixed-term one-year contracts. However, in the light of the worsening labour market situation, the numbers of employed pensioners are persistently decreasing. While in 1990 there were about 172 thousand employees receiving also retirement pensions, by 1996 their number shrunk to 42 thousand, which represented less than 2% of total employment. The ratio of old-age pensioners still at work changed during 1990-96 from 28% to 10%.

The foreign labour force in Slovakia is negligible. The share of foreign workers in the total labour force has been increasing during the transition period, but the values are still rather low: in 1998 foreign workers represented about 0.22% of the total labour force and 0.25% of total employment. The main countries of origin of foreign workers are the Czech Republic, Ukraine and Poland. The regional distribution of foreign workers is rather uneven. A higher concentration of foreign workers can be found only in the urban labour markets of large cities, such as in the capital Bratislava and in Kosice.

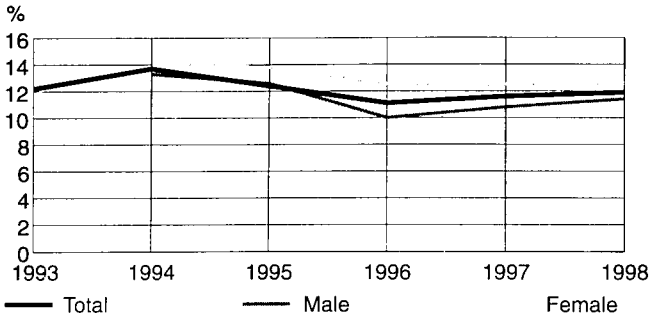
Unemployment

Unemployment in Slovakia is monitored by the National Labour Office (registered unemployment) and by the Statistical Office (ILO definition of unemployment). Regular quarterly Labour Force Surveys were introduced in the second quarter of 1993, which allow for providing internationally comparable unemployment statistics.

In 1991 the unemployment rate in Slovakia increased from almost zero to 12%. Since then it has been fluctuating around double-digit levels, at the end of 1998 reaching almost 16%. With a labour force of slightly more than two million, the total number of unemployed currently reaches its historical maximum at more than 400 thousand, and a further deterioration is anticipated. The relatively weak labour market dynamics is reflected in the magnitude of monthly unemployment flows, which typically do not exceed 10% of the unemployment stock.

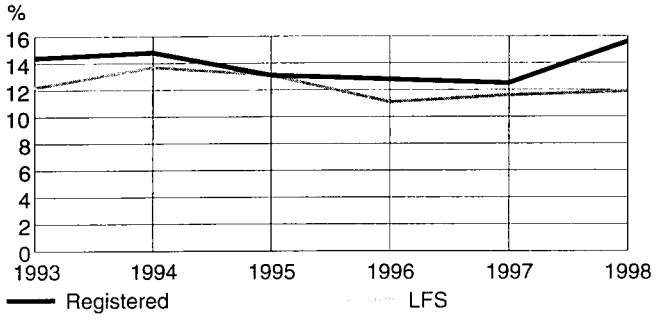
The incidence of unemployment is relatively high for women, young people and workers with low education. *(Figure 2)* Unemployment rates for women have been persistently higher than that of men. Young people under 25 years seem to have a handicap at the labour market, as their proportion in unemployment (over 30%) is much larger than their proportion in employment (about 15%). *(Table 2)* A similar relative disadvantage is present for the group of workers with basic education, who have an about 30% share in unemployment, as compared to their about 10% share in employment. For women the two shares are 45% and 47%, respectively.

Figure SK2: *Unemployment rate in % - by gender (LFS)*



Source: Eurostat, WIIW database incorporating national statistics

Figure SK3: *Unemployment rate in % - by registration and LFS*



Source: Eurostat, WIIW database incorporating national statistics

Table SK2: *Unemployment rate in % - by age groups (LFS)*

	1993	1994	1995	1996	1997	1998
Total	12.2	13.7	13.1	11.1	11.6	11.9
Less than 25 years of age	25.7	27.6	24.8	20.6	22.4	23.5
25 and more years of age	9.4	10.9	10.8	9.2	9.4	9.5
Share of long-term unemployed in total, %	30.2	41.6	53.1	52.7	51.1	49.7

Source: Eurostat, WIIW database incorporating national statistics

One of the basic controversies is the high degree of regional segmentation. First, there is a sharp distinction between the capital Bratislava and the rest of the country. Second, there is high diversification of labour market indicators among the Slovak districts. District unemployment rates range from about 4% (in Bratislava) to more than 30% (in Rimavska Sobota). A look at the demand side of the labour market is not very encouraging. Structural imbalances are high, mostly due to the strong regional segmentation and the permanent and severe lack of available vacancies. At the end of 1998 there were 38 registered unemployed per one registered vacancy. However, in some macro-regions (Kosice, Nitra) the number was close to 80. The discrepancies are connected to the existence of mono-industrial districts, typically specialized in engineering — former military production, metallurgy, chemical industry, or production of leather goods. Furthermore, there are typical agricultural districts located mainly in the southeastern lowlands. The high degree of specialization in the districts is typically connected with structural imbalance and relatively high unemployment rates.

Registered unemployment in Slovakia is higher than unemployment according to the Labour Force Survey. At the end of 1998 the corresponding unemployment rates were 15.6% and 11.8%, respectively. The discrepancy implies possible disincentive effects of the unemployment insurance system and social benefits. *(Figure 3)*

Soon after the beginning of transition, long-term unemployment started to increase until its share in total unemployment according to registered and LFS data reached about 40% and 50%, respectively. Mostly workers with very low education represent the hard core of long-term unemployment: about 80% of long-term unemployed have less than complete secondary education. Almost one third of long-term unemployed are young people up to 25 years of age.

Current stage of transition

Small-scale privatization in Slovakia began in 1991. Large-scale privatization followed in 1992 with the first round of the voucher scheme. In 1995 the second wave of voucher privatization was cancelled and so-called strategic enterprises were defined and excluded from privatization. Direct sales to domestic owners prevailed over other forms of privatization. This explains the relatively low volumes of foreign direct investment, compared to Hungary and the Czech Republic. In 1998 the privatization process was nearing its completion. Strategic companies, representing about 30% of the book value of all productive state assets, remain excluded from the privatization process (for example, utilities, telecommunications and railways). Despite certain positive signs of restructuring, the profitability of enterprises remains generally low. The revitalization process enacted in 1997 provided possibilities for tax and debt relieves for enterprises. The so-called strategic enterprises and enterprises included in the revitalization programmes remain insulated from market conditions. Recently the size of the programmes has been cut back. Consequently, a further deterioration of the employment situation is likely in the near future.

3.10. Slovenia

Economic development

During the one and a half years following independence, Slovenia faced recession caused by market losses in other former Yugoslav republics and in the CMEA countries, and due to the introduction of market-oriented reforms. Economic recovery started in mid-1993 and gained further momentum in 1994 with GDP growing by 5.3%; subsequently it slowed until 1996. *(Table 1)* A new pick-up started in the second half of 1997, with annual GDP growth reaching 4.6%. 1998 witnessed a 3.9% rise in the GDP. Measured in PPS, Slovenia's per capita GDP is the highest among the candidate countries for EU accession, corresponding to 68% of the EU average in 1997. The private sector is estimated to account for more than half of output and almost half of employment. Increases in domestic and foreign demand components were the principal driving force of economic recovery. Their contribution to growth shifted in response to domestic and external conditions.

Table SL1: *Slovenia: Selected economic indicators*

	1993	1994	1995	1996	1997	1998
Gross domestic product, real change in %	2.8	5.3	4.1	3.1	4.6	3.9
Industrial output, real change in %	-2.8	6.4	2.0	1.0	1.0	3.7
Employees in industry, annual change in %	-8.5	-4.5	-4.9	-5.2	-2.1	.
Gross fixed investment, real change in %	10.7	14.1	16.8	8.4	11.2	6.7
Average wages, real change in %	14.4	6.0	4.7	4.4	2.9	1.5
Trade balance in % of GDP	-3.3	-3.3	-6.3	-5.9	-5.5	-5.4

Source: WIIW database incorporating national statistics, Eurostat

Industrial production had started to revive only in 1994, after having contracted from the late 1980s onwards. The reversal was caused by strong foreign demand resulting from the economic recovery in the West European markets, and by an increase in domestic investment activities. After 6.4% growth in 1994, a slowdown of production growth started in the second half of 1995 and continued until the last quarter of 1997. Following a recovery in 1998, data for the first months of 1999 indicate a slowdown of industrial output this year. There are at least two reasons for the stagnation in industrial output: first, being a small open economy with high regional concentration in trade (EU), Slovenia is extremely vulnerable to economic developments in EU markets. Second, the slowdown of growth is also attributable to structural weaknesses such as slow restructuring or insufficient functioning of corporate governance.

The stabilization policy pursued since gaining independence has been successful in bringing down **inflation**; in 1996 the annual rate for the first time reached a single-digit level. After several adjustments in controlled prices at the beginning of 1998, inflation measured by the CPI reached 6.5% by December 1998 and 7.9% on an annual average. Controlled prices (for public utilities, communal services, sugar, wheat and flour from commodity reserves) account for 17% of the CPI basket. The gradual decline of inflation allowed for a gradual reduction of nominal and real interest rates, but compared to European standards they remain still high.

Real **wages** resumed growth at the beginning of 1992. From then on they were on the rise until 1996, exceeding increases in labour productivity. The halt of excessive real wage growth was mainly resulting from the Act on Minimum Wage and Wage Adjustment Mechanism passed by the Slovenian parliament in July 1997 (valid until June 1999). The document regulates wage developments in the private sector, while public sector wages are set according to a separate annex. All wages are subject to adjustment mechanism, where the base wages are adjusted for 85% of inflation on an annual rather than a quarterly basis. Following the implementation of the act, real wage growth slowed down substantially in 1997 and 1998.

Slovenia as a small country is highly dependent on **foreign trade**, with exports of goods and services corresponding to 57% of the GDP. Two thirds of the trade is conducted with the European Union, particularly with Germany, Italy, France and Austria. Both exports and imports are dominated by machinery, transport equipment and other manufactured products. On the territory of the former Yugoslavia, Croatia has remained Slovenia's main trading partner, though the volume of bilateral trade has been declining steadily. During the 1993-98 period, both total exports and imports developed dynamically, increasing cumulatively by 48.8% and 55.3% respectively in current USD terms. After a remarkable jump in 1995, the average annual trade deficit has been about USD 1 billion. Thanks to increased earnings from services (especially from tourism and transport), the deficits in trade could be largely offset. Thus the current account was balanced or even in surplus over the whole period.

The inflow of **foreign direct investment** to Slovenia is rather modest compared to other transition countries. By the end of 1997 the stock of foreign investment amounted approximately to USD 2.2 billion (including foreign equity and net liabilities of foreign investors). FDI inflows were only significant on a per capita basis; here Slovenia ranked second, after Hungary. The results also reflect Slovenia's

strong resistance concerning the participation of foreigners in the privatization process.

The labour market

Population and labour force

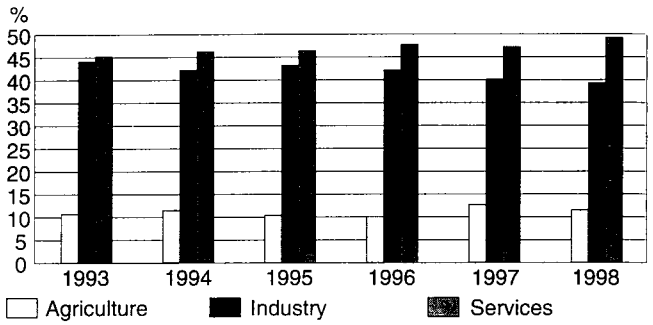
Slovenia's population amounts to approximately two millions. The total population has been stagnant or slightly declining since the second half of the 1990s, as a result of declining birth rates and a slight increase in net emigration. The share of working-age population (15-64 years) is about 70%. Young people aged up to 14 years and population aged 65 years or more represent over 17% and 13%, respectively, of the total. The share of women in the working-age population is almost 50%, but women account for only 45% of the employed. Labour force participation is higher for men. Labour Force Survey (LFS) data based on working-age population comprising all persons aged 15 years or more indicate the participation rate at the end of 1998 to be 65.9% for men and 52.5% for women.

Employment

Since the start of the transition, the labour market in Slovenia underwent substantial changes: the labour force contracted sharply, employment declined and unemployment rose significantly. There are some uncertainties about the actual size of employment losses because of different sources of employment data. Labour Force Surveys have been conducted since 1993. On the basis of national accounts and the health insurance registers, employment fell by about 14% over the 1989-95 period; the bulk of job losses occurred during the initial period between 1989 and 1992. In that period young workers and older workers were particularly affected: young workers were not able to get jobs and more workers than usual retired, many of them under the government-sponsored early retirement programme. Registration records put the fall of total employment at about 20% over the entire 1989-95 period. While the figures based on health insurance records indicate a stagnation of employment, administrative data signal its further decline in the period 1993-95. LFS data report the lowest employment level in 1993 and show an employment increase afterwards, although with some fluctuations. In recent years most jobs were created in the small-scale private sector.

In Slovenia employment patterns changed less rapidly than in other leading transition countries. According to administrative data, the share of industry in total employment fell from 44.7% in 1993 to 41.6% in 1998, while that of services increased from 47.7% to 51.7%. The proportion of employed in agriculture fell only marginally from 7.6% in 1993 to 6.7% in 1998. A comparison with previous years is almost impossible because of methodological changes (the NACE classification was introduced at the beginning of 1997). According to LFS data from the fourth quarter of 1998, industrial employment accounted for 38.8% of the total, while services and agriculture for 50.2% and 10.5%, respectively. The employment structure still deviates from that of most EU countries: there is still a higher proportion of employed in industry and a lower proportion in the services sector. *(Figure 1)*

Figure SL1: *Structure of employment, shares in % (LFS)*



Note: 1993-1996 refer to survey data in May

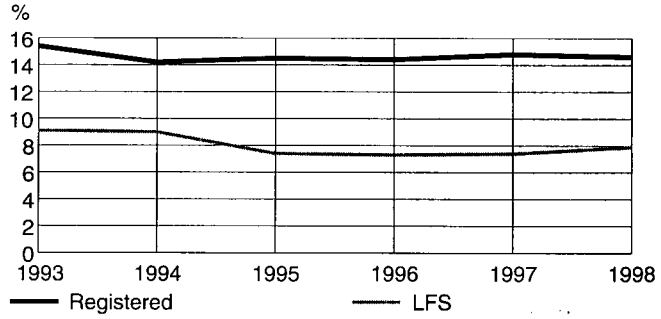
Source: Eurostat, WIIW database incorporating national statistics

The share of foreign workers in Slovenia has been on the increase until 1996, but fell in the two subsequent years. In 1998 the number of working permits was by 12% lower than a year earlier, with foreign workers corresponding to 4% of the total labour force and 4.7% of total employed. The main countries of origin of foreign workers are the successor states of the former Yugoslavia (accounting for more than 90% of total foreign work force in Slovenia), first of all Bosnia and Herzegovina.

Unemployment

The employment cutback resulted in a sharp increase in open unemployment, reaching a peak level in 1993, when 137 thousand persons were registered as unemployed. In the following years the number of jobless decreased slightly. At the end of 1998 registered unemployment amounted to 127 thousand persons, corresponding to 14.6% unemployment rate. *(Figure 2)* The structural nature of unemployment is becoming more and more evident: more than half of all jobseekers are low-skilled, close to 50% are over 40 years old

Figure SL2: *Unemployment rate in % - by registration and LFS*

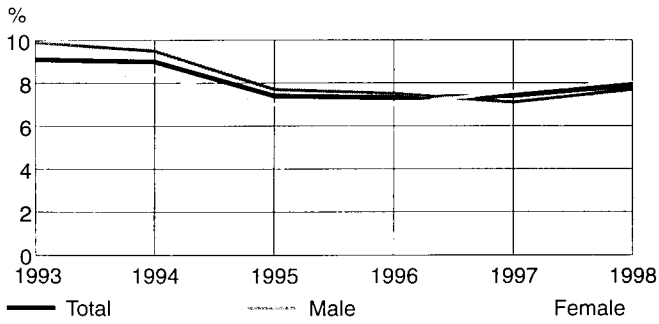


Source: Eurostat, WIIW database incorporating national statistics

and more than one quarter is below 26 years of age. The share of women has been steadily on the increase from 56% in 1993 to over 62.5% in 1998. Only about 40% of the registered unemployed were entitled to unemployment benefits.

LFS data (using the ILO definition of unemployment) show a less alarming picture: in 1993 85 thousand persons were affected by unemployment, corresponding to a 9.1% unemployment rate; in the last quarter of 1998 the number was 76 thousand, corresponding to an unemployment rate of 7.8%. The unemployment rate was slightly higher for women (8.1%) than for men (7.7%). *(Figure 3)* It is interesting to note that during the 1993-96 period, unemployment among men was higher than among women. The tendency was reversed in 1997. Unemployment was highest among young persons below 25 years of age, reaching 18.2%. *(Table 2)* Long-term unemployed form another problem group on the Slovenian labour market: the share of long-term unemployment in the total is close to 60% both for LFS and registered data. Compared to other transition countries, the difference between the two unemployment measures (LFS and register) is relatively large, indicating a broader coverage of the registered data. In addition informal work, the generous system of unemployment insurance and the lacking control of activities of unemployed may partly account for the disparity between the registered and surveyed unemployed (see also the previous section on labour market statistics in CEC).

Figure SL3: *Unemployment rate in % - by gender (LFS)*



Note: 1993-1996 refer to survey data in May

Source: Eurostat, WIIW database incorporating national statistics

Table SL2: *Unemployment rate in % - by age groups (LFS)*

	1993	1994	1995	1996	1997	1998
Total	9.1	9.0	7.4	7.3	7.4	7.9
Less than 25 years of age	24.2	22.2	18.8	18.8	17.6	18.3
25 and more years of age	6.4	7.1	5.6	5.6	5.6	6.1
Share of long-term unemployed in total, %	.	.	.	.	56.7	57.1
Share of reg. long-term unemployed in total, %	54.8	62.1	59	53.8	59.6	.

Note: 1993-1996 refer to survey data in May

Source: Eurostat, WIIW database incorporating national statistics

The incidence of unemployment varies across regions. Employment and unemployment of a region often depends on a single large enterprise located there. Of the ten regional employment offices, Maribor reports the highest unemployment both in absolute and relative terms, followed by Murska Sobota, Celje and Sevnica. Lower than average rates are recorded for Nova Gorica, Koper and Novo Mesto. Compared with other transition countries, where the capital cities are characterized by full employment, Ljubljana is a real outlier with an unemployment rate reaching 11.1% by the end of 1998.

Current stage of transition

Enterprise restructuring in Slovenia has proceeded relatively slowly as compared to other transition countries. The privatization of socially owned enterprises started in 1992 and reached its completion by the end of 1998. Though the privatization law provided for a wide variety of privatization methods, management-employee buyout has become the dominant form of privatization in Slovenia. Among the privatized enterprises, insiders currently control a 76% share, although these companies account for only 43% of equity in the privatized sector. Larger companies are owned by funds. The privatization of publicly owned enterprises, utilities and banks is still ahead.

After years of preparation, the Law on Banking came into effect at the beginning of February 1999. The law regulates four important areas: competition, responsible and safe operations of banks, collateralization of retail and corporate deposits and the framework of activities of the Bank of Slovenia. Following the liberalization envisaged by the law, foreign banks are allowed to open branches as required by the Association Agreement. Until the end of 1998, they had been allowed to establish representative offices respectively own banks only under very restrictive conditions. A reduction in the number of banks is envisaged, some experts expecting a decline from the current 24 to about 15 in the course of the next four years. In July 1999 the value added tax will be introduced, replacing the existing turnover tax.

3.11. Albania

Economic development

Three key economic developments after the collapse of socialism determine the enduring economic policy problems that the government faces. The first is the collapse of industry which is now at the level of one quarter of what it was in 1989 and is now concentrated in mining and extraction activities. The second is large outward migration: in excess of 300 thousand Albanians left the country after 1991 and the process is continuing, sometimes speeding up and at other times slowing down. The third is the institutional collapse that reached a catastrophic level with the 1997 banking crisis and the overall political collapse as already mentioned. *Table 1* gives some indication of the more recent economic developments.

Table AL1: *Albania: key indicators*

	1993	1994	1995	1996	1997	1998
Gross domestic product, real change in %	9.6	8.3	13.3	9.1	-7	8
Industrial output, real change in %	-10.0	-2.0	1.0	15.8	-10	8
Agricultural production, real change in %	10.4	10.3	10.6	0.5	0	3
Registered unemployment rate, %	22.0	18.0	13.0	12.4	15	18
Budget deficit, % GDP	14.4	12.4	10.3	12.1	12.7	12

Source: Eurostat, IMF, national statistics and author's estimates

The current, pre-Kosovo crisis, economic situation in Albania has been determined by the economic and political collapse in the first half of 1997. Though elections were held in mid-1997 and the new government enjoys a comfortable majority in the parliament and has a good international standing, it has been unable to assert its authority over the various local leaders in the country. Because of that, internal security in Albania is a serious concern as is the working of the legal system. In addition to these problems, there are those that are connected with public finances, with external finances, and with growth and development in general.

In the last half a dozen years, Albania has run a general government deficit in excess of 10% of GDP. The gap is filled with foreign aid, loans, and similar kinds of assistance. However, the higher than affordable public expenditures will have to come to an end at some point in time. In addition, most of the expenditures are directed into consumption while public investments are low or negligible.

Albania exports about as much as it exported ten years ago or even less than that. It now imports, however, three to four times more. Thus, the trade deficit is very large. It is financed from transfers and with foreign loans. Foreign debt is growing, though Albania had hardly any debt at the beginning of its transformation. Given the speed with which debt is accumulating, it will soon become unsustainable.

Investments are low, especially after the banking crisis of 1997 when several hundred million US dollars of savings were lost. In addition, foreign investments - increasing in the period preceding the crisis - stopped. Given the overall political and economic disintegration and uncertainty, there is no hope that investments will increase, both domestic and foreign. As a consequence, the prospects for growth and development are bleak. In 1998, Albania posted an increase of 8% in GDP and a similar increase in industrial production, but that was after a similar or even higher decrease in the preceding year. Even if the GDP continues to grow at that or a similar rate in the medium run, the overall situation in the country will not change significantly in terms of develpment.

The labour market

The population is about 3.3 million. The natural increase is high: over 13 per thousand in 1997. The working-age population was about 61% in 1997. Female population of working age was slightly above 51%. Population younger than 14 was about 33% while population older than 65 was 6.1% of the total population.

As already noted, about 300 thousand people migrated out of Albania in the first few years following the collapse of socialism. Outward migration has continued and intensified after the crisis in 1997. The full extent of outward migration is not known, but it is well above 10% of the population.

After the eruption of the Kosovo crisis, there was a steady increase in the migration of Kosovo Albanians into Albania. In mid-April 1999, there were already about 350 thousand immigrants from Kosovo in Albania.

Out of the total labour force, the domestic labour force was 1,377 thousand while there were 295 thousand emigrant workers in 1995. Domestic employment, in the same year, was 1,145 thousand, out of which 584 thousand (51%) were employed in agriculture, 295 thousand (26%) in the state sector, and 265 thousand (23%) in the private sector (all figures are from 1995).

The development of registered unemployment shows a large increase up until 1993, when it reached about 300 thousand, and the unemployment rate was 18.5%. From 1994 to 1996 there was a decrease in unemployment, so that in 1996 the unemployment rate went down to around 10%. However, in 1997 it increased again and the trend continued in 1998 (17.6 % in 1998).

Current stage of transition

In the initial period of transition, 1993-96, Albania was moving up on the ladder of successful transition economies, and very fast. Because of the high growth rates, the falling inflation and the falling unemployment, the huge fiscal and current account disequilibria that developed were seen as normal and temporary. It was also believed that the increase in foreign investment together with the large inflows of the money in the form of workers' remittances would enable Albania to achieve high and sustainable growth rates. It was, indeed, in some classifications, put under the heading of 'small miracles'.

In 1997, however, there was a financial collapse that led to a breakdown in the institutional infrastructure of the country. The central government lost control of half of the country and only the determined international involvement prevented the country from entering into a civil war. These adverse economic and political developments led to a reconsideration of the country's progress in the process of transition and it is now commonly classified as a laggard. Though GDP growth was again high in 1998, it is commonly understood that the country faces the problems of nation-building, of institutional strengthening and of major legal and administrative reforms together with the usual problems with macroeconomic stability and equilibrium. With the current Kosovo crisis and with the possibility of the country getting involved in a regional military conflict, it is clear that transition will take some time to advance.

3.12. The FYR of Macedonia

Economic development

The economic development has been influenced by the process of nation-building (the FYR of Macedonia became an independent state only in 1992) and by the adverse political and economic developments in the region (war in Bosnia and Herzegovina, international sanctions on the neighbouring Yugoslavia, Greek trade embargo, near-civil war in Albania, and most recently the Kosovo crisis). As a consequence, economic activities were depressed for the whole period (1992-98).

In the first half of the 1990s, overall production was highly negative, or negative. GDP stabilized in 1996 and grew at low rates in 1997 and 1998. *(Table 1)* Industrial production started to grow in 1996 also. However, in 1998, GDP stood at about 70% of what it had been in 1989. In the same year, industrial production was below 50% of its 1989 level. Agricultural production decreased much less, however, while trade and services grew.

sistent trade deficit. Because of the positive balance in factor services, the current account deficit is lower, but it is still high (about 7-8% as a share of GDP in most years).

Current account deficits are financed mainly by credits from the international financial organizations and with multilateral loans. Foreign direct investments are quite low. The stock of **foreign direct investment** is still below USD 100 mn.

The labour market

Population and labour force

The last population census was taken in the first half of 1994. A regular Labour Force Survey has been conducted every year since 1996 (in April). Since the beginning of 1998, statistics have stopped publishing regular figures of registered employment and unemployment.

On the basis of the last census and the natural growth of the population as well as of migration, the population of the country can be put at around 2 million at the end of 1998. The rate of the natural increase of the population has been

Table MK1: *The FYR of Macedonia: Selected economic indicators*

	1993	1994	1995	1996	1997	1998
Gross domestic product, real change in %	-9.1	-1.8	-1.2	0.8	1.5	2.9
Industrial output, real change in %	-13.9	-10.5	-10.7	3.0	1.6	4.5
Employees in industry, annual change in %	-5.1	-5.9	-13.4	-6.6	-7.9	.
Gross fixed investment, real change in %	-14.1	-6.8	8.5	2.2	4.3	2.6
Average wages, real change in %	28.9	-10.2	-4.3	0.5	0.6	3.8
Trade balance in % of GDP	-5.2	-11.7	-11.6	-10.9	-14.6	-16.7

Source: WIIW database incorporating national statistics, Eurostat

Inflation was very high in the first few years after gaining independence. But after the introduction of the stabilization programme, supported by a stand-by agreement with the IMF, inflation decreased and settled down to a very low level for the last three years. Price stability was achieved via a fixed exchange rate regime based on DEM. There was a need to devalue by about 16% in mid-1997, but the stability of the prices was retained.

Real **wages** have declined in the 1990s, though they have shown small positive growth since 1996. Given the GDP per capita of less than USD 2,000 (at the official exchange rate), the average net monthly wage of around DEM 300 is higher than in other transition countries at a similar level of development. The reason is that the level of prices in the FYR of Macedonia is high as it is in most other successor states of former Yugoslavia.

Foreign trade has suffered from the disintegration of the market in former Yugoslavia and from the Greek embargo (first quarter 1994 to third quarter 1995). Exports have essentially stayed at the same level (in US dollar terms) since 1992. Imports have increased, however, by about 40% over the same period. This has resulted in a large and per-

declining in recent years, from 9.1 (per thousand) in 1994 to 6.4 in 1997. Net migration has also been going down in this period, from 1.4 (per thousand) in 1994 to 0.5 in 1997. This official figures certainly understate the extent of outward migration. Anecdotal and other evidence suggests both high outward and high inward migration. In 1996 the share of the working age population (15-64) was 66.9% of which 49.8% were female. Population younger than 14 was 24.3% while older than 65 were 8.7%, which suggests a somewhat young overall population.

According to the Labour Force Survey, the labour force consisted of 823,826 people in 1998. There were 539,762 employed and 284,064 unemployed persons. Those employed were 34.4% of the population of working age (15 and over) in 1997. Given that total employment increased by about 1.5% in 1998, the share of employed in the working age population increased, but only slightly, to 35.9% in 1998.

Employment and unemployment

Out of the total number of **employed**, female employment was 38.8% in 1997. The share of people employed in

agriculture was 18.5% in 1997. The number of people employed in the private sector was 201,319 or 37.3%.

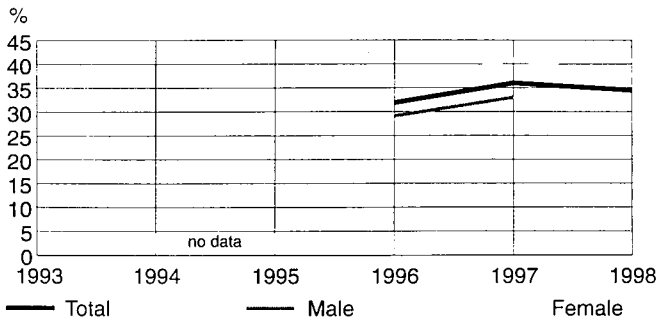
The number of retired persons has been high as has been the number of those taking early retirement. Figures on retirees taking employment are not available because much of that employment is unreported.

The participation of commuters is negligible. However, that of foreigners is high, though mainly in the black market. Because of the significant influx of people from Kosovo, most of whom do not have the citizenship of the FYR of Macedonia, their economic activity is also significant, though they may not be formally employed in one way or another.

There were 284,064 **unemployed persons** in1998 according to the findings of the labour survey. This is 1.4% less than a year before, but the unemployment rate remained very high, at 34.5%. Unemployment was high before 1992 also. Though the figures were as unreliable then as they are now, registered unemployment was probably closer to reality then and it stood at close to 25%. Thus, the net increase in the unemployment rate over the last decade is somewhere around 10%.

The unemployment rate among young persons (age 15-24) was extremely high, 70.9% in 1998. *(Table 2)* The female unemployment rate was higher than overall unemployment at 37.6% in 1998. *(Figure 1)*

Figure MK1: *Unemployment rate in % - by gender (LFS)*



Source: Eurostat

of long-term unemployment is extremely high. In 1997 83% of jobless were unemployed for more than one year, 55.4% of unemployed have been in that status for four years or more.

3.12.3. Current stage of transition

By most accounts (e.g. IMF, the World Bank, EBRD), the FYR of Macedonia is classified as an inter-mediate reformer country or slightly better than that. Successful stabilization, the liberalization of prices and the foreign exchange, the privatization of the socially-owned firms and other reform measures contribute to that. However, the overall legal reform and restructuring of production are judged to be lagging. Also, the persistent macroeconomic disequilibria, the low level of investment (both domestic and foreign) together with high unemployment point to the need for more changes and reforms.

Table MK2: *Unemployment rate in % - by age groups (LFS)* *)

	1993	1994	1995	1996	1997	1998
Total	.	.	.	31.9	36.0	34.5
Less than 25 years of age	.	.	.	69.5	74.2	70.9
25 and more years of age	.	.	.	24.0	28.2	.
Share of long-term unemployed in total, %				80.7	83.1	.

*) = Data refer to April, respectively

Source: Eurostat, WIIW database incorporating national statistics

In terms of educational attainment, 45.6% of those unemployed have primary education, while 47.7% have secondary or higher education. Thus, full 93.3% of those unemployed have at least primary education. The incidence

Bulgaria	1993	1994	1995	1996	1997	1998
Population						
Population, end of period (in 1000)	8,460.0	8,427.0	8,385.0	8,341.0	*8,283.2*	*8,224.2*
Net migration - crude rate (per 1000 inhabitants)	0.0	0.0	0.0	0.1	0.0	.
Natural increase - crude rate (per 1000 inhabitants)	-3.0	-3.8	-5.1	-5.4	-6.9	.
Population of working age (15-64). in % of total	66.8	66.9	67.1	67.3	*67.6*	.
Female in % of working age population	50.4	50.4	50.4	50.4	*50.7*	.
Population 0-14 years in % of total	18.8	18.4	17.9	17.5	*16.7*	.
Populmation 65 years and more in % of total	14.4	14.7	15.0	15.3	*15.6*	.
Employment						
LFS - Labour force (in 1000)	*3,809.3*	*3,608.9*	*3,552.3*	*3,576.2*	*3,564.2*	*3,581.8*
Activity rate (labour force in % of working age pop., 15+)	55.4	52.4	51.5	51.8	51.6	50.4
Total employment (LFS, in 1000)	*2,994.6*	*2,868.7*	*3,031.5*	*3,085.4*	*3,030.1*	*2,920.7*
1. Quart	.	.	.	.	.	.
2. Quart	.	.	.	.	.	.
3. Quart	.	.	.	.	.	.
4. Quart	.	.	.	.	.	.
Employment rate (working age population 15-64)	*52,9*	*50,8*	*53,8*	*54,8*	*54,1*	.
Annual change in employment in %	.	*-4,2*	*5,7*	*1,8*	*-1,8*	*-3,6*
Female in % of total employment	*46,6*	*46,6*	*46,9*	*46,9*	*46,7*	*46,8*
Employment in agriculture (in % of total employment)	.	.	.	.	.	.
Industry (in %)	.	.	.	.	.	.
Services (in %)	.	.	.	.	.	.
Unemployment						
LFS - Unemployment (in 1000)	814.7	740.2	520.8	490.8	534.1	556.1
1. Quart	.	.	.	.	.	.
2. Quart	.	.	.	.	.	.
3. Quart	.	.	.	.	.	.
4. Quart	.	.	.	.	.	.
Annual change in %	.	-9.1	-29.6	-5.8	8.8	4.1
LFS - Unemployment rate (unemployed % of labour force)	21.4	20.5	14.7	13.,7	15.0	16.0
1. Quart	.	.	.	.	.	.
2. Quart	.	.	.	.	.	.
3. Quart	.	.	.	.	.	.
4. Quart	.	.	.	.	.	.
LFS - Structure of unemployment - in % of unemployment						
Aged 15-24	30.5	29.0	30.2	26.5	26.1	25.7
Aged 25-54	62.9	65.3	65.9	69.8	69.8	69.6
Aged 55+	6.6	5.6	3.9	3.6	4.1	4.7
female	48.3	47.0	48.1	47.4	47.8	47.0
previous occupation in agriculture	.	.	.	.	.	.
industry	.	.	.	.	.	.
services	.	.	.	.	.	.
Registered unemployment (in 1000), end of period	626.1	488.4	423.8	478.8	523.5	465.2
March	*604.5*	*615.3*	*476.1*	*434.0*	*555.8*	*524.1*
June	*586.5*	*508.6*	*408.5*	*380.3*	*541.6*	*434.7*
September	*598.6*	*484.0*	*400.7*	*401.6*	*521.2*	*410.7*
December	*626.1*	*488.4*	*423.7*	*478.8*	*523.5*	*465.2*
Annual change in %	.	-22.0	-13.2	13.0	9.3	-11.1
Macroeconomic Indicators						
GDP - current prices in ECU bn	9.2	8.1	10.0	7.8	9.0	*10.9*
real annual change in %	-1.5	1.8	2.9	-10.1	-6.9	*3.5*
per capita in ECU, EU (15) = 100	7.0	6.0	8.0	5.0	6.0	*7.0*
per capita in PPS, EU (15) = 100	28.0	28.0	28.0	25.0	23.0	.
Current account in % of GDP	-10.2	-0.3	-0.2	1.6	*4.1*	*-2.0*
Consumer prices, annual change in %	56.1	87.1	62.1	123.0	1,082.3	22.3
Industrial output, real change in %	-9.8	10.7	4.5	3.8	-8.6	-9.4
Unit labour costs (ECU based), real change in %	*47.3*	*-23.8*	*12.1*	*-4.4*	*0.7*	*38.1*
FDI inflow, ECU mn	*87.0*	*177.0*	*124.0*	*202.0*	*561.0*	*554.0*

Czech Republic	1993	1994	1995	1996	1997	1998
Population						
Population, end of period (in 1000)	10,334.0	10,333.0	10,321.0	10,309.0	10,299.0	*10,290.5*
Net migration - crude rate (per 1000 inhabitants)	0.5	1.0	1.0	1.0	1.2	*0.9*
Natural increase - crude rate (per 1000 inhabitants)	0.3	-1.0	-2.1	-2.2	-2.1	*-1.8*
Population of working age (15-64), in % of total	*67.6*	67.8	68.2	68.5	*69.0*	*69.2*
Female in % of working age population	*50.1*	50.1	50.1	50.0	*50.0*	*49.9*
Population 0-14 years in % of total	*19.4*	19.1	18.6	18.1	*17.4*	*17.1*
Population 65 years and more in % of total	*13.0*	13.1	13.2	13.4	*13.6*	*13.7*
Employment						
LFS - Labour force (in 1000)	5,093.6	5,147.9	5,170.6	5,173.5	5,184.8	5,201.5
Activity rate (labour force in % of working age pop., 15+)	61.4	61.6	61.5	61.2	61.1	61.0
Total employment (LFS, in 1000)	4,873.5	4,926.8	4,962.6	4,972.0	4,936.5	4,865.7
1. Quart	4,825.4	4,915.6	4,930.7	4,972.0	4,952.6	4,881.3
2. Quart	4,846.9	4,918.0	4,949.3	4,961.3	4,935.4	4,875.0
3. Quart	4,890.0	4,930.2	4,975.4	4,974.3	4,931.2	4,853.7
4. Quart	4,931.9	4,943.3	4,994.9	4,980.3	4,926.9	4,852.9
Employment rate (working age population 15-64)	70.1	70.3	70.5	70.4	69.6	*68.4*
Annual change in employment in %	.	1.1	0.7	0.2	-0.7	-1.4
Female in % of total employment	43.9	44.0	43.9	43.6	43.5	43.3
Employment in agriculture (in % of total employment)	7.7	6.9	6.6	6.1	5.8	5.5
Industry (in %)	42.9	42.2	41.8	41.5	41.1	40.9
Services (in %)	49.4	51.0	51.6	52.3	53.1	53.6
Unemployment						
LFS - Unemployment (in 1000)	220.0	221.2	208.1	201.5	248.3	335.7
1. Quart	229.1	216.9	221.8	192.7	221.5	306.7
2. Quart	216.1	215.2	207.8	194.9	231.3	305.0
3. Quart	220.4	230.1	209.8	208.0	259.8	351.5
4. Quart	214.6	222.4	192.8	210.3	280.7	379.6
Annual change in %	.	0.5	-5.9	-3.2	23.3	35.2
LFS - Unemployment rate (unemployed % of labour force)	4.3	4.3	4.0	3.9	4.8	6.5
1. Quart	4.5	4.2	4.3	3.7	4.3	5.9
2. Quart	4.3	4.2	4.0	3.8	4.5	5.9
3. Quart	4.3	4.5	4.0	4.0	5.0	6.8
4. Quart	4.2	4.3	3.7	4.1	5.4	7.3
LFS - Structure of unemployment - in % of unemployment						
Aged 15-24	32.5	34.6	32.4	30.1	28.6	30.4
Aged 25-54	59.7	59.0	61.1	61.4	64.8	63.9
Aged 55+	7.8	6.5	6.5	8.4	6.7	5.7
female	55.9	53.7	52.9	52.7	54.6	56.5
previous occupation in agriculture	8.3	7.3	7.1	6.2	6.0	4.9
industry	45.9	45.8	47.3	47.4	45.3	44.9
services	45.8	46.9	45.6	46.4	48.7	50.1
Registered unemployment (in 1000), end of period	185.2	166.5	153.0	186.3	268.9	386.9
March	151.6	184.5	161.5	159.2	199.6	284.1
June	138.6	160.1	144.0	144.1	202.6	289.5
September	167.0	163.9	154.0	169.0	247.6	350.7
December	185.2	166.5	153.0	186.3	268.9	386.9
Annual change in %	.	-10.1	-8.1	21.8	44.3	43.9
Macroeconomic Indicators						
GDP - current prices in ECU bn	29.4	33.5	38.8	44.5	45.9	*49.1*
real annual change in %	0.6	2.7	6.4	3.9	1.0	*-2.7*
per capita in ECU, EU (15) = 100	18.0	19.0	22.0	24.0	23.0	*24.0*
per capita in PPS, EU (15) = 100	59.0	60.0	62.0	65.0	64.0	.
Current account in % of GDP	1.3	-2.0	-2.7	-7.6	-6.1	*-1.9*
Consumer prices, annual change in %	20.8	10.0	9.1	8.8	8.5	*10.7*
Industrial output, real change in %	-5.3	2.1	9.2	2.0	4.5	*1.6*
Unit labour costs (ECU based), real change in %	*31.5*	*15.9*	*13.5*	*14.3*	*3.0*	*9.7*
FDI inflow, ECU mn	*557.0*	*731.0*	*1,959.0*	*1,126.0*	*1,147.0*	*1,250.0*

Estonia	1993	1994	1995	1996	1997	1998
Population						
Population, end of period (in 1000)	*1,506.9*	*1,491.6*	*1,476.3*	*1,462.1*	*1,453,8*	*1,445.1*
Net migration - crude rate (per 1000 inhabitants)	-8.9	-4.9	-5.4	-5.7	-1.6	.
Natural increase - crude rate (per 1000 inhabitants)	-4.0	-5.3	-4.9	-3.9	-4.1	.
Population of working age (15-64), in % of total	*66.1*	*66.1*	*66.2*	66.4	*66.5*	*66.7*
Female in % of working age population	*51.7*	*51.7*	*51.7*	51.8	*51.8*	*51.8*
Population 0-14 years in % of total	*21.5*	*21.1*	*20.7*	20.0	*19.8*	*19.2*
Population 65 years and more in % of total	*12.4*	*12.8*	*13.1*	13.6	*13.8*	*14.1*
Employment						
LFS - Labour force (in 1000)	757.8	749.4	726.9	717.6	717.7	.
Activity rate (labour force in % of working age pop., 15+)	63.3	63.0	61.5	61.0	61.2	.
Total employment (LFS, in 1000)	708.1	692.6	656.1	645.6	648.4	.
1. Quart	*713.4*	*685.2*	*652.3*	*642.5*	*646.0*	*643.3*
2. Quart	*708.0*	*691.1*	*655.1*	*644.7*	*647.7*	*643.0*
3. Quart	*707.2*	*696.3*	*658.6*	*647.4*	*648.6*	.
4. Quart	*703.9*	*697.8*	*658.3*	*647.9*	*651.2*	.
Employment rate (working age population 15-64)	*68.7*	*68.1*	*65.5*	*64.9*	*65.4*	.
Annual change in employment in %	.	-2.2	-5.3	-1.6	0.4	.
Female in % of total employment	*47.2*	*47.1*	*47.8*	*48.0*	*47.7*	*48.2*
Employment in agriculture (in % of total employment)	*16.6*	*14.6*	*10.5*	*10.0*	*9.4*	*9.5*
Industry (in %)	*33.0*	*32.3*	*34.0*	*33.5*	*33.4*	*33.2*
Services (in %)	*50.4*	*53.1*	*55.4*	*56.5*	*57.2*	*57.3*
Unemployment						
LFS - Unemployment (in 1000)	49.6	56.7	70.9	71.9	69.4	.
1. Quart	*44.9*	*56.2*	*71.1*	*70.6*	*68.8*	*72.4*
2. Quart	*49.0*	*55.3*	*70.5*	*68.7*	*67.6*	*68.0*
3. Quart	*50.8*	*57.4*	*71.2*	*72.5*	*70.6*	.
4. Quart	*53.8*	*58.1*	*70.6*	*75.9*	*70.6*	.
Annual change in %	.	14.3	25.0	1.4	-3.5	.
LFS - Unemployment rate (unemployed % of labour force)	6.5	7.6	9.7	10.0	9.7	.
1. Quart	*5.9*	*7.6*	*9.8*	*9.9*	*9.6*	*10.1*
2. Quart	*6.5*	*7.4*	*9.7*	*9.6*	*9.4*	*9.6*
3. Quart	*6.7*	*7.6*	*9.8*	*10.1*	*9.8*	.
4. Quart	*7.1*	*7.7*	*9.7*	*10.5*	*9.8*	.
LFS - Structure of unemployment - in % of unemployment						
Aged 15-24	*23.8*	*22.9*	*20.0*	*21.4*	*19.6*	.
Aged 25-54	*70.4*	*69.8*	*72.0*	*70.8*	*73.0*	.
Aged 55+	*5.8*	*7.3*	*8.0*	*7.9*	*7.5*	.
female	*47.7*	*49.0*	*42.7*	*43.9*	*45.4*	.
previous occupation in agriculture	.	.	*17.8*	.	*10.4*	.
industry	.	.	*34.3*	.	*43.2*	.
services	.	.	*47.9*	.	*46.4*	.
Registered unemployment (in 1000). end of period	34.2	34.3	33.9	37.3	30.6	34.5
March	.	.	.	39.7	38.4	34.9
June	.	.	.	35.1	32.3	29.1
September	.	.	.	35.9	30.7	30.3
December	.	.	.	37.3	30.6	34.5
Annual change in %	.	0.3	-1.2	10.0	-18.0	12.7
Macroeconomic Indicators						
GDP - current prices in ECU bn	1.4	1.9	2.7	3.4	4.2	*4.7*
real annual change in %	-9.0	-2.0	4.3	4.0	10.6	*4.2*
per capita in ECU. EU (15) = 100	6.0	8.0	11.0	13.0	15.0	*16.0*
per capita in PPS. EU (15) = 100	32.0	31.0	32.0	34.0	37.0	.
Current account in % of GDP	1.3	-7.2	*-5.2*	*-9.2*	*-12.0*	.
Consumer prices, annual change in %	89.8	47.7	29.0	23.1	11.2	*8.2*
Industrial output, real change in %	-18.7	-3.0	1.9	2.9	13.4	*1.5*
Unit labour costs (ECU based), real change in %	.	.	.	.	.	.
FDI inflow. ECU mn	.	*180.5*	*151.8*	*87.4*	*113.0*	*498.3*

Hungary	1993	1994	1995	1996	1997	1998
Population						
Population, end of period (in 1000)	10,277.2	10,245.7	10,212.3	10,174.4	10,135.4	*10,092.0*
Net migration - crude rate (per 1000 inhabitants)	0.0	0.0	0.0	0.0	0.0	.
Natural increase - crude rate (per 1000 inhabitants)	-3.2	-3.0	-3.3	-3.7	-3.8	*-4.3*
Population of working age (15-64), in % of total	*67.5*	*67.7*	67.8	*68.0*	68.1	.
Female in % of working age population	*50.9*	*50.9*	50.9	*50.9*	50.9	.
Population 0-14 years in % of total	*18.6*	*18.3*	18.0	17.7	17.5	.
Population 65 years and more in % of total	*13.9*	*14.0*	14.2	*14.3*	14.4	.
Employment	0					
LFS - Labour force (in 1000)	4.346.0	4,203.0	4,096.0	4,048.0	3,995.0	4,011.0
Activity rate (labour force in % of working age pop., 15+)	56.0	54.0	52.4	51.8	51.2	51.7
Total employment (LFS, in 1000)	3,827.0	3,752.0	3,679.0	3,648.0	3,646.0	3,698.0
1. Quart	3,823.0	3,712.0	3,640.0	3,594.0	3,604.0	3,641.0
2. Quart	3,844.0	3,747.0	3,665.0	3,628.0	3,616.0	3,664.0
3. Quart	3,831.0	3,785.0	3,694.0	3,659.0	3,655.0	3,716.0
4. Quart	3,811.0	3,764.0	3,716.0	3,712.0	3,711.0	3,770.0
Employment rate (working age population 15-64)	*55.1*	*54.1*	*53.1*	*52.7*	*52.8*	.
Annual change in employment in %	.	-2.0	-1.9	-0.8	-0.1	1.4
Female in % of total employment	*45.7*	*45.2*	*44.3*	*44.2*	*44.0*	*44.8*
Employment in agriculture (in % of total employment)	9	9	8	8	8	8
Industry (in %)	34	33	33	33	33	34
Services (in %)	57	58	59	59	59	58
Unemployment						
LFS - Unemployment (in 1000)	519.0	451.0	417.0	400.0	349.0	313.0
1. Quart	547.0	482.0	432.0	422.0	372.0	347.0
2. Quart	518.0	449.0	411.0	399.0	368.0	319.0
3. Quart	517.0	436.0	415.0	404.0	346.0	303.0
4. Quart	494.0	431.0	408.0	375.0	310.0	284.0
Annual change in %	.	-13.1	-7.5	-4.1	-12.8	-10.3
LFS - Unemployment rate (unemployed % of labour force)	11.9	10.7	10.2	9.9	8.7	7.8
1. Quart	12.5	11.5	10.6	10.5	9.4	8.7
2. Quart	11.9	10.7	10.1	9.9	9.2	8.0
3. Quart	11.9	10.3	10.1	9.9	8.6	7.5
4. Quart	11.5	10.3	9.9	9.2	7.7	7.0
LFS - Structure of unemployment - in % of unemployment						
Aged 15-24	27.2	26.3	27.5	26.6	27.5	28.0
Aged 25-54	67.5	69.5	69.4	70.0	68.4	68.1
Aged 55+	5.2	4.2	3.1	3.4	4.1	3.9
female	39.1	43.3	37.2	39.1	38.6	39.5
previous occupation in agriculture	15.3	13.1	11.7	10.6	9.5	8.9
industry	47.9	46.8	46.4	43.9	45.0	43.5
services	36.8	40.1	41.9	45.5	45.5	47.7
Registered unemployment (in 1000), end of period	632.1	519.6	495.9	477.5	464.0	404.0
March	697.6	611.0	540.7	528.4	493.3	459.6
June	657.3	549.9	482.7	482.0	459.9	406.4
September	669.8	545.9	491.4	501.1	458.6	398.5
December	632.1	519.6	495.9	477.5	464.0	404.1
Annual change in %	.	-17.8	-4.6	-3.7	-2.8	-12.9
Macroeconomic Indicators						
GDP - current prices in ECU bn	33.0	32.2	34.1	35.6	40.4	*42.5*
real annual change in %	-0.6	2.9	1.5	1.3	4.4	5.1
per capita in ECU. EU (15) = 100	20.0	20.0	19.0	19.0	21.0	*21.0*
per capita in PPS, EU (15) = 100	46.0	47.0	47.0	48.0	49.0	.
Current account in % of GDP	-9.0	-10.2	-5.6	-3.7	-2.1	*-4.8*
Consumer prices, annual change in %	22.5	18.8	28.2	23.6	18.3	*14.3*
Industrial output, real change in %	4.0	9.6	4.6	3.4	11.1	*12.6*
Unit labour costs (ECU based), real change in %	*9.2*	*0.6*	*-14.3*	*0.3*	*6.1*	*-0.2*
FDI inflow, ECU mn	*2,116.0*	*1,111.0*	*3,494.0*	*1,609.0*	*1,858.0*	*1,741.0*

Latvia	1993	1994	1995	1996	1997	1998
Population						
Population, end of period (in 1000)	2,566.0	2,530.0	2,502.0	2,480.0	2,458.0	*2,439.8*
Net migration - crude rate (per 1000 inhabitants)	-10.8	-7.4	-4.2	-2.9	-2.7	*-1.3*
Natural increase - crude rate (per 1000 inhabitants)	*-4.9*	-6.9	-6.9	*-5.9*	-6.0	*-6.5*
Population of working age (15-64), in % of total	*65.9*	65.9	66.0	*66.2*	*66.4*	.
Female in % of working age population	*51.9*	52.0	52.0	52.0	*51.9*	.
Population 0-14 years in % of total	*21.0*	*20.7*	*20.3*	*19.9*	*19.3*	.
Population 65 years and more in % of total	*13.1*	*13.4*	*13.7*	*13.9*	*14.3*	.
Employment						
LFS - Labour force (in 1000)	.	.	1,200.0	1,182.2	1,186.1	*1,167.8*
Activity rate (labour force in % of working age pop., 15+)	.	.	67.6	59.8	59.7	.
Total employment (LFS, in 1000)	.	.	973.0	965.5	1,014.9	.
1. Quart	.	.	.	.	.	.
2. Quart	.	.	.	960.5	1,006.8	1,004.3
3. Quart	.	.	.	.	.	.
4. Quart	.	.	*973.0*	965.5	1,014.9	*1,007.2*
Employment rate (working age population 15-64)	.	.	.	.	.	.
Annual change in employment in %	.	.	.	-0.8	5.1	*-0.8*
Female in % of total employment	.	.	*47.1*	*47.7*	*48.1*	*47.0*
Employment in agriculture (in % of total employment)	.	.	*17.4*	*17.9*	*20.6*	*18.8*
Industry (in %)	.	.	*28.0*	*26.7*	*26.8*	*26.2*
Services (in %)	.	.	*54.6*	*55.4*	*52.6*	*55.0*
Unemployment						
LFS - Unemployment (in 1000)	.	.	227.0	216.7	171.2	.
1. Quart	.	.	.	.	.	.
2. Quart	.	.	.	273.5	190.1	172.4
3. Quart	.	.	.	.	.	.
4. Quart	.	.	*227.0*	216.7	171.2	*160.6*
Annual change in %	.	.	.	-4.5	-21.0	*-6.2*
LFS - Unemployment rate (unemployed % of labour force)	.	.	18.9	18.3	14.4	*13.8*
1. Quart	.	.	.	.	.	.
2. Quart	.	.	.	22.2	15.9	14.7
3. Quart	.	.	.	.	.	.
4. Quart	.	.	.	18.3	14.4	*13.8*
LFS - Structure of unemployment - in % of unemployment						
Aged 15-24	.	.	23.6	21.9	*22.0*	*22.3*
Aged 25-54	.	.	62.5	66.8	*68.9*	*69.5*
Aged 55+	.	.	*13.9*	11.3	9.1	*8.2*
female	.	.	44.3	45.6	48.5	*48.4*
previous occupation in agriculture	.	.	14.6	*8.9*	10.6	*8.5*
industry	.	.	40.2	*39.1*	34.5	*38.2*
services	.	.	45.2	*52.0*	54.9	*53.3*
Registered unemployment (in 1000). end of period	76.7	83.9	83.2	90.8	84.9	111.4
March	*49.6*	*87.2*	*85.7*	88.2	94.7	86.3
June	*64.6*	*85.1*	*77.9*	88.5	95.3	87.6
September	*72.8*	*81.0*	*76.6*	88.5	88.6	92.9
December	*76.7*	*83.9*	*83.2*	90.8	84.9	111.4
Annual change in %	*145.0*	9.4	-0.8	9.1	-6.5	31.2
Macroeconomic Indicators						
GDP - current prices in ECU bn	1.9	3.1	3.4	4.0	4.9	*5.7*
real annual change in %	-14.9	0.6	-0.8	3.3	*8.6*	*3.6*
per capita in ECU. EU (15) = 100	4.0	7.0	8.0	9.0	10.0	*12.0*
per capita in PPS, EU (15) = 100	25.0	25.0	25.0	26.0	27.0	.
Current account in % of GDP	19.2	5.4	-0.4	-5.5	-6.2	*-11.0*
Consumer prices. annual change in %	109.2	35.9	25.0	17.6	8.4	*4.7*
Industrial output, real change in %	-32.1	-9.9	-3.7	5.5	6.1	*2.0*
Unit labour costs (ECU based), real change in %	.	.	.	.	.	.
FDI inflow, ECU mn	.	.	.	.	.	.

Lithuania	1993	1994	1995	1996	1997	1998
Population						
Population, end of period (in 1000)	3,724.0	3,718.0	3,712.0	3,707.0	3,705.0	.
Net migration - crude rate (per 1000 inhabitants)	-3.7	-0.6	-0.5	-0.2	0.0	.
Natural increase - crude rate (per 1000 inhabitants)	0.4	-1.1	-1.1	-1.0	-0.9	.
Population of working age (15-64), in % of total	*66.3*	66.3	68.1	66.3	*66.5*	.
Female in % of working age population	.	51.7	51.7	51.7	*51.6*	.
Population 0-14 years in % of total	*22.2*	22.0	22.4	21.4	*20.8*	.
Population 65 years and more in % of total	*11.5*	11.7	9.5	12.3	*12.7*	.
Employment						
LFS - Labour force (in 1000)	.	2,002.9	1,979.4	1,937.8	1,819.8	1,835.3
Activity rate (labour force in % of working age pop., 15+)	.	67.9	66.9	65.4	61.2	61.4
Total employment (LFS, in 1000)	.	1.655,7	1,632.3	1,620.4	1,563.9	1,588.0
1. Quart	.	.	.	.	.	.
2. Quart	.	.	.	.	.	1,568.7
3, Quart	.	.	.	.	1,563.9	.
4. Quart	.	.	.	.	.	1,607.3
Employment rate (working age population 15-64)	.	*67.1*	*66.3*	*65.9*	*63.5*	.
Annual change in employment in %	.	.	-1.4	-0.7	-3.5	1.5
Female in % of total employment	.	.	.	.	.	.
Employment in agriculture (in % of total employment)	.	.	.	.	20	20
Industry (in %)	.	.	.	.	29	29
Services (in %)	.	.	.	.	51	51
Unemployment						
LFS - Unemployment (in 1000)	.	347.2	347.1	317.4	255.9	247.3
1. Quart	.	.	.	.	.	.
2. Quart	.	.	.	.	.	262.1
3. Quart	.	.	.	.	255.9	.
4. Quart	.	.	.	.	.	232.4
Annual change in %	.	.	0.0	-8.6	-19.4	-3.4
LFS - Unemployment rate (unemployed % of labour force)	.	17.4	17.1	16.4	14.1	13.5
1. Quart	.	.	.	.	.	.
2. Quart	.	.	.	.	.	14.3
3. Quart	.	.	.	.	14.1	.
4. Quart	.	.	.	.	.	12.6
LFS - Structure of unemployment - in % of unemployment						
Aged 15-24	.	.	.	.	26.0	21.8
Aged 25-54	.	.	.	.	69.5	73.3
Aged 55+	.	.	.	.	4.5	5.0
female	.	.	.	.	47.1	44.0
previous occupation in agriculture	.	.	.	.	7.9	10.6
industry	.	.	.	.	53.9	48.2
services	.	.	.	.	38.2	41.2
Registered unemployment (in 1000). end of period	65.5	78.0	127.7	109.4	120.2	122.8
March	.	.	.	144.2	108.2	133.2
June	.	.	.	122.0	93.3	97.8
September	.	.	.	112.5	99.1	99.3
December	.	.	.	109.4	120.2	122.8
Annual change in %	.	19.1	63.7	-14.3	9.9	2.2
Macroeconomic Indicators						
GDP - current prices in ECU bn	2.3	3.6	4.7	6.3	8.5	*9.4*
real annual change in %	-16.2	-9.8	3.3	4.7	7.3	*5.1*
per capita in ECU, EU (15) = 100	4.0	6.0	7.0	9.0	12.0	*13.0*
per capita in PPS, EU (15) = 100	.	28.0	28.0	29.0	30.0	.
Current account in % of GDP	-3.1	-2.1	-10.0	-9.0	*-10.2*	.
Consumer prices, annual change in %	410.2	72.2	39.6	24.6	8.9	*4.6*
Industrial output, real change in %	-34.4	-26.6	5.3	5.0	0.7	*7.0*
Unit labour costs (ECU based), real change in %	.	.	.	.	.	.
FDI inflow, ECU mn	.	.	.	.	.	.

Poland	1993	1994	1995	1996	1997	1998
Population						
Population, end of period (in 1000)	38,505.0	38,581.0	38,609.0	38,639.0	38,660.0	*38,667.0*
Net migration - crude rate (per 1000 inhabitants)	-0.4	-0.5	-0.5	-0.3	-0.3	.
Natural increase - crude rate (per 1000 inhabitants)	2.7	2.5	1.2	1.1	*0.9*	*0.5*
Population of working age (15-64), in % of total	.	65.9	*66.3*	66.7	*67.2*	.
Female in % of working age population	.	50.4	*50.4*	50.3	*50.3*	.
Population 0-14 years in % of total	.	23.1	*22.5*	21.9	*21.1*	.
Population 65 years and more in % of total	.	10.9	*11.2*	11.5	*11.7*	.
Employment						
LFS - Labour force (in 1000)	17,321.0	17,134.0	17,070.0	17,076.0	17,103.0	17,177.0
Activity rate (labour force in % of working age pop,, 15+)	60,9	60.2	58.8	58.2	57.7	57.4
Total employment (LFS, in 1000)	14,894.0	14,661.0	14,793.0	14,968.0	15,180.0	15,361.0
1, Quart	14,841.0	14,428.0	14,524.0	14,823.0	14,854.0	15,165.0
2. Quart	14,820.0	14,641.0	14,860.0	15,291.0	15,132.0	15,363.0
3. Quart	15,143.0	14,847.0	15,013.0	15,097.0	15,423.0	15,551.0
4. Quart	14,772.0	14,729.0	14,774.0	14,969.0	15,311.0	15,365.0
Employment rate (working age population 15-64)	.	57,6	*57.8*	*58.1*	*58.4*	.
Annual change in employment in %		-1.6	0.9	1.2	1.4	1.2
Female in % of total employment	*45.2*	*45.4*	*45.3*	*45.1*	*44.7*	*44.9*
Employment in agriculture (in % of total employment)	.	.	*22.6*	*22.1*	*20.5*	*19.1*
Industry (in %)	.	.	*32.0*	*31.7*	*31.9*	*32.1*
Services (in %)		.	*45.4*	*46.2*	*47.5*	*48.9*
Unemployment						
LFS - Unemployment (in 1000)	2,427.0	2,473.0	2,277.0	2,108.0	1,923.0	1,816.0
1. Quart	2,467.0	2,719.0	2,491.0	2,349.0	2,176.0	1,896.0
2. Quart	2,371.0	2,391,0	2,156.0	2,103.0	1,927.0	1,753.0
3, Quart	2,274.0	2,409.0	2,227.0	2,018.0	1,853.0	1,786.0
4. Quart	2,595.0	2,375,0	2,233.0	1,961.0	1,737.0	1,827.0
Annual change in %	.	1.9	-7.9	-7.4	-8.8	-5.6
LFS - Unemployment rate (unemployed % of labour force)	14.9	16.5	15.2	14.3	11.5	10.6
1. Quart	14.3	15.9	14.7	14.0	12.8	11.1
2. Quart	13.8	14.0	12.6	12.4	11.3	10.2
3. Quart	13.1	13.9	12.9	11.6	10.7	10.3
4. Quart	14.9	13.9	13.1	11.5	10.2	10.6
LFS - Structure of unemployment - in % of unemployment						
Aged 15-24	26.8	27.6	28.7	28.4	27.5	26.7
Aged 25-54	68.9	68.0	67.5	67.7	68.7	68.7
Aged 55+	4.4	4.4	3.8	3.9	3.8	4.6
female	51.3	51.2	50.9	51.8	54.0	53.3
previous occupation in agriculture	.	.	6.5	6.7	7.9	7.3
industry	.	.	46.6	46.7	43.8	45.0
services	.	.	47.0	46.6	48.3	47.7
Registered unemployment (in 1000), end of period	2,889.6	2,838.0	2,628.8	2,359.5	1,826.4	1,831.4
March	2,648.7	2,950.1	2,753.8	2,726.0	2,235.7	1,845.7
June	2,701.8	2,933.0	2,694.0	2,508.3	2,039.9	1,687.6
September	2,830.0	2,915.7	2,657.2	2,341.0	1,853.7	1,676.7
December	2,889.6	2.838.0	2,628.8	2,359.5	1,826.4	1,831.4
Annual change in %	.	-1.8	-7.4	-10.2	-22.6	0.3
Macroeconomic Indicators						
GDP - current prices in ECU bn	73.4	77.8	91.0	106.0	119.8	*140.7*
real annual change in %	3.8	5.2	7.0	6.1	6.9	*4.8*
per capita in ECU. EU (15) = 100	12.0	12.0	14.0	15.0	16.0	*18.0*
per capita in PPS. EU (15) = 100	31.0	32.0	33.0	35.0	37.0	.
Current account in % of GDP	-2.7	-1.0	4.6	-1.0	-3.1	*-4.3*
Consumer prices. annual change in %	35.3	32.2	27.8	19.9	14.9	*11.8*
Industrial output. real change in %	5.6	13.1	10.2	9.0	11.2	*4.8*
Unit labour costs (ECU based), real change in %	*5.7*	*1.5*	*7.7*	*12.9*	*6.9*	*6.9*
FDI inflow, ECU mn	*1,133*	*1,256*	*1,920*	*3,155*	*5,820*	*8,985*

Romania	1993	1994	1995	1996	1997	1998
Population						
Population, end of period (in 1000)	22,748.0	22,712.0	22,656.0	22,582.0	22,526.0	22,489.0
Net migration - crude rate (per 1000 inhabitants)	-0.8	-0.7	-0.9	-0.9	-0.1	.
Natural increase - crude rate (per 1000 inhabitants)	-0.6	-0.9	-1.5	-2.4	-2.3	.
Population of working age (15-64). in % of total	66.9	67.2	67.5	67.8	.	.
Female in % of working age population	50.2	50.3	50.3	50.3	.	.
Population 0-14 years in % of total	21.7	21.1	20.5	19.9	.	.
Population 65 years and more in % of total	11.4	11.7	12.0	12.3	.	.
Employment						
LFS - Labour force (in 1000)	.	.	.	11.727.0	11,756.0	11,577.0
Activity rate (labour force in % of working age pop,. 15+)	.	63.9	66.0	64.8	64.8	.
Total employment (LFS, in 1000)	.	10,914.0	11,152.0	10,936.0	11,050.0	10,845.0
1. Quart	.	.	.	9,896.0	10,444.0	10,293.0
2. Quart	.	.	.	11,410.0	11,339.0	11,226.0
3. Quart	.	.	.	11,543.0	11,558.0	11,343.0
4. Quart	.	.	.	10,894.0	10,860.0	10,518.0
Employment rate (working age population 15-64)	.	71.5	72.8	71.3	.	.
Annual change in employment in %	.	.	2.2	-1.9	1.0	-1.9
Female in % of total employment	.	.	.	.	47.4	.
Employment in agriculture (in % of total employment)	.	39	40	38	39	40
Industry (in %)	.	33	31	32	31	29
Services (in %)	.	28	29	30	30	31
Unemployment						
LFS - Unemployment (in 1000)	.	971.0	967.9	790.9	706.5	732.4
1. Quart	.	.	.	1,009.0	753.2	820.0
2. Quart	.	.	.	719.5	661.8	663.7
3. Quart	.	.	.	712.0	674.4	672.9
4. Quart	.	.	.	723.0	736.5	773.0
Annual change in %	.	.	*-0.3*	*-18.3*	*-10.7*	*3.7*
LFS - Unemployment rate (unemployed % of labour force)	.	8.2	8.0	6.7	6.0	*6.3*
1. Quart	.	.	.	9.3	6.7	7.4
2. Quart	.	.	.	5.9	5.5	5.6
3. Quart	.	.	.	5.8	5.5	5.6
4. Quart	.	.	.	6.2	6.4	6.8
LFS - Structure of unemployment - in % of unemployment						
Aged 15-24	.	45.8	43.8	48.4	46.5	43.0
Aged 25-54	.	52.6	54.2	50.1	52.0	55.6
Aged 55+	.	1.6	2.0	1.4	1.5	1.4
female	.	49.7	49.6	49.5	48.5	44.1
previous occupation in agriculture	.	10.2	13.4	11.9	16.2	17.0
industry	.	62.9	59.7	57.4	51.7	52.8
services	.	26.8	26.9	30.7	32.1	30.3
Registered unemployment (in 1000). end of period	1,165.0	1,224.0	998,0	658.0	881.0	1,025.0
March	1,062.0	1,291.0	1,229.0	1,031.0	758,0	953.0
June	1,036.0	1,213.0	1,115.0	798.0	728.0	884.0
September	1,040.0	1,192.0	1,038.0	665.0	721.0	857.0
December	1,165.0	1,224.0	998.0	658.0	881.0	1,025.0
Annual change in %	.	5.1	-18.5	-34.1	33.9	16.3
Macroeconomic Indicators						
GDP - current prices in ECU bn	22.6	25.2	27.1	27.6	30.8	*33.9*
real annual change in %	1.5	3.9	7.1	3.9	-6.6	*-7.3*
per capita in ECU. EU (15) = 100	6.0	7.0	7.0	7.0	7.0	*8.0*
per capita in PPS, EU (15) = 100	30.0	31.0	32.0	34.0	31.0	.
Current account in % of GDP	-4.4	-1.4	-5.0	-7.3	-6.7	*-7.9*
Consumer prices, annual change in %	256.1	136.7	32.3	38.8	154.8	*59.1*
Industrial output, real change in %	1.1	3.3	9.4	9.9	-5.9	*-17.0*
Unit labour costs (ECU based), real change in %	*31.4*	*-1.2*	*3.8*	*-3.9*	*-0.4*	*41.4*
FDI inflow, ECU mn	*133*	*478*	*239*	*480*	*1,079*	*1,250*

Slovenia	1993	1994	1995	1996	1997	1998
Population						
Population, end of period (in 1000)	1,989.0	1,989.0	1,990.0	1,987.0	1,985.0	1,982.0
Net migration - crude rate (per 1000 inhabitants)	-2.2	0.0	0.4	-1.7	-0.7	.
Natural increase - crude rate (per 1000 inhabitants)	-0.1	0.1	0.0	0.1	-0.3	.
Population of working age (15-64). in % of total	*67.7*	*69.4*	*69.4*	*69.6*	*69.8*	.
Female in % of working age population	*51.1*	*50.2*	*49.7*	*49.5*	*49.4*	.
Population 0-14 years in % of total	*20.6*	*18.5*	*18.1*	*17.6*	*17.0*	.
Population 65 years and more in % of total	*11.7*	*12.1*	*12.5*	*12.9*	*13.2*	.
Employment						
LFS - Labour force (in 1000)	*931.0*	*936.0*	*952.0*	*946.0*	*978.0*	*978.0*
Activity rate (labour force in % of working age pop., 15+)	*57.7*	*57.6*	*58.7*	*57.6*	*59.5*	*59.4*
Total employment (LFS, in 1000)	845.0	851.0	882.0	878.0	906.0	*900.5*
1. Quart	.	.	.	.	.	890.0
2. Quart	845.0	851.0	882.0	878.0	898.0	907.0
3. Quart	.	.	.	.	914.0	908.0
4. Quart	.	.	.	.	906.0	*897.0*
Employment rate (working age population 15-64)	*62.8*	*62.5*	*63.9*	*63.5*	*65.4*	.
Annual change in employment in %		0.7	3.6	-0.5	3.2	*-0.6*
Female in % of total employment	*46.7*	*46.7*	*46.4*	*46.7*	*46.1*	*46.0*
Employment in agriculture (in % of total employment)	.	.	.	.	*12.7*	*11.5*
Industry (in %)	.	.	.	.	*40.1*	*39.2*
Services (in %)	.	.	.	.	*46.8*	*48.9*
Unemployment					99.6	99.6
LFS - Unemployment (in 1000)	.	.	.	.	72.0	*77.0*
1. Quart	.	.	.	.	.	82.0
2. Quart	85.0	85.0	70.0	69.0	69.0	75.0
3. Quart	.	.	.	.	70.0	74.0
4. Quart	.	.	.	.	77.0	*76.0*
Annual change in %	.	.	.	.	.	.
LFS - Unemployment rate (unemployed % of labour force)	.	.	.	.	7.4	*7.9*
1. Quart	.	.	.	.	.	8.4
2. Quart	9.1	9.0	7.4	7.3	7.1	7.7
3. Quart	.	.	.	.	7.2	7.5
4. Quart	.	.	.	.	7.8	*7.8*
LFS - Structure of unemployment - in % of unemployment						
Aged 15-24	.	.	.	.	*34.6*	*33.1*
Aged 25-54	.	.	.	.	.	.
Aged 55+	.	.	.	.	.	.
female	*42.3*	*43.5*	*44.3*	*44.9*	*48.6*	*46.8*
previous occupation in agriculture	.	.	.	.	2.0	.
industry	.	.	.	.	60.0	.
services	.	.	.	.	38.0	.
Registered unemployment (in 1000). end of period	137.1	123.5	126.8	124.5	128.6	126.6
March	120.3	130.6	119.8	120.8	124.2	127.5
June	128.0	122.7	116.4	114.0	122.6	123.2
September	134.8	125.6	123.4	118.1	125.3	124.7
December	137.1	123.5	126.8	124.5	128.6	126.6
Annual change in %		-9.9	2.7	-1.8	3.3	-1.6
Macroeconomic Indicators						
GDP - current prices in ECU bn	10.8	12.1	14.3	14.9	16.1	*17.5*
real annual change in %	2.8	5.3	4.1	3.1	4.6	*3.9*
per capita in ECU, EU (15) = 100	34.0	36.0	42.0	41.0	43.0	*44.0*
per capita in PPS, EU (15) = 100	62.0	64.0	65.0	67.0	68.0	.
Current account in % of GDP	1.5	4.2	-0.1	0.2	0.2	*0.0*
Consumer prices, annual change in %	32.9	21.0	13.5	9.9	8.3	*7.9*
Industrial output, real change in %	-2.8	6.4	2.0	1.0	1.0	*3.7*
Unit labour costs (ECU based), real change in %	*12.0*	*3.7*	*14.2*	*-0.2*	*0.4*	*2.1*
FDI inflow, ECU mn	*169*	*278*	*332*	*314*	*469*	*270*

Slovakia	1993	1994	1995	1996	1997	1998
Population						
Population, end of period (in 1000)	5,336.0	5,356.0	5,368.0	5,379.0	5,388.0	.
Net migration - crude rate (per 1000 inhabitants)	0.3	0.9	0.5	0.4	0.3	.
Natural increase - crude rate (per 1000 inhabitants)	3.9	2.8	1.6	1.7	1.3	.
Population of working age (15-64), in % of total	*65.8*	*66.3*	*66.8*	*67.3*	*67.7*	.
Female in % of working age population	*50.6*	50.5	50.5	50.5	*50.4*	.
Population 0-14 years in % of total	*23.5*	*22.9*	*22.3*	*21.7*	*21.1*	.
Population 65 years and more in % of total	*10.7*	*10.8*	*10.9*	*11.0*	*11.2*	.
Employment						
LFS - Labour force (in 1000)	2,502.0	2,437.0	2,472.0	2,496.0	2,481.0	2,464.0
Activity rate (labour force in % of working age pop., 15+)	62.1	59.9	59.9	60.0	59.5	59.7
Total employment (LFS, in 1000)	2,196.0	2,103.0	2,147.0	2,218.0	2,194.0	2,167.0
1. Quart		2,086.0	2,118.0	2,174.0	2,207.0	2,159.0
2. Quart	2,196.0	2,104.0	2,138.0	2,218.0	2,197.0	2,167.0
3. Quart	2,198.0	2,114.0	2,158.0	2,241.0	2,187.0	2,170.0
4. Quart	2,192.0	2,108.0	2,173.0	2,239.0	2,185.0	2,172.0
Employment rate (working age population 15-64)	.	*61.1*	*62.3*	*63.2*	*59.7*	.
Annual change in employment in %	.	-4.2	2.1	3.3	-1.1	-1.2
Female in % of total employment	.	*44.3*	*44.4*	*44.5*	*45.0*	*45.1*
Employment in agriculture (in % of total employment)	.	10.1	9.2	8.9	8.6	8
Industry (in %)	.	39.8	38.9	39.5	39.2	39
Services (in %)	.	50.1	51.9	51.6	52.2	53
Unemployment						
LFS - Unemployment (in 1000)	306.0	334.0	325.0	278.0	287.0	297.0
1. Quart	.	333.0	356.0	298.0	294.0	302.0
2. Quart	296.0	327.0	327.0	272.0	277.0	289.0
3. Quart	305.0	329.0	307.0	270.0	290.0	302.0
4. Quart	316.0	346.0	308.0	271.0	288.0	295.0
Annual change in %	.	9.2	-2.7	-14.5	3.2	3.5
LFS - Unemployment rate (unemployed % of labour force)	12.2	13.7	13.1	11.1	11.6	11.9
1. Quart	.	13.7	14.4	12.1	11.8	12.1
2. Quart	11.9	13.4	13.3	10.9	11.2	11.7
3. Quart	12.2	13.5	12.5	10.7	11.7	12.1
4. Quart	12.6	14.1	12.4	10.8	11.6	11.8
LFS - Structure of unemployment - in % of unemployment						
Aged 15-24	36.6	34.0	31.8	31.3	31.9	33.8
Aged 25-54	60.8	62.7	65.4	65.8	65.3	63.2
Aged 55+	2.6	3.3	2.8	2.9	2.8	3.0
female	43.8	46.0	46.9	50.7	49.0	47.3
previous occupation in agriculture	.	.	.	9.9	10.4	11.5
industry	.	.	.	45.5	41.8	42.6
services	.	.	.	44.5	47.8	45.9
Registered unemployment (in 1000), end of period	368.1	371.5	333.3	329.7	*347.8*	*428.2*
March	306.1	370.5	371.6	342.7	349.7	370.9
June	318.1	360.0	339.1	311.2	319.9	374.7
September	350.0	363.5	336.0	313.9	336.9	385.8
December	368.1	371.5	333.3	329.7	*347.8*	428.2
Annual change in %	.	0.9	-10.3	-1.1	5.5	*23.1*
Macroeconomic Indicators						
GDP - current prices in ECU bn	10.2	11.6	13.3	14.8	17.2	*18.1*
real annual change in %	-3.7	4.9	6.9	6.6	6.5	*4.4*
per capita in ECU, EU (15) = 100	12.0	13.0	14.0	15.0	17.0	*17.0*
per capita in PPS, EU (15) = 100	39.0	40.0	42.0	45.0	46.0	.
Current account in % of GDP	-5.0	4.8	2.2	-11.3	-9.9	*-10.1*
Consumer prices, annual change in %	23.2	13.4	9.9	5.8	6.1	*6.7*
Industrial output, real change in %	-3.7	4.9	8.3	2.5	2.7	*5.0*
Unit labour costs (ECU based), real change in %	*25.2*	*4.0*	*7.7*	*7.3*	*6.9*	*-0.1*
FDI inflow, ECU mn	*114*	*232*	*198*	*306*	*266*	*402*

Albania	1993	1994	1995	1996	1997	1998
Population						
Population, end of period (in 1000)	3,168.0	3,202.0	3,249.0	3,283.0	*3,324.0*	*3,378.0*
Net migration - crude rate (per 1000 inhabitants)	.	.	.	.	.	.
Natural increase - crude rate (per 1000 inhabitants)	*15.7*	*16.8*	*16.6*	15.5	*13.0*	.
Population of working age (15-64), in % of total	60.4	60.6	60.9	60.9	*60.9*	.
Female in % of working age population	51.3	51.1	51.1	51.2	*50.1*	.
Population 0-14 years in % of total	33.7	33.4	33.0	33.0	*32.9*	.
Population 65 years and more in % of total	5.9	6.0	6.1	6.1	*6.1*	.
Employment						
Labour force (in 1000)	*1,347.0*	*1,423.0*	*1,309.0*	*1,274.0*	*1,301.0*	1,320.0
Activity rate (labour force in % of working age pop. 15+)	*76.3*	*79.6*	*71.9*	*68.9*	*69.9*	*69.3*
Total employment (in 1000)	*1,046.0*	*1,161.0*	*1,138.0*	*1,116.0*	*1,107.0*	1,085.0
Annual change in employment in %	*-4.4*	*10.9*	*-1.9*	*-1.9*	*-0.8*	*-1.9*
Female in % of total employment	*42.5*	*42.0*	*39.9*	*39.4*	*38.2*	*37.6*
Employment in agriculture (in % of total employment)	.	*67.1*	*67.2*	*70.3*	*68.6*	70.8
Industry (in %)	.	*9.5*	*8.2*	*7.6*	*8.0*	8.8
Services (in %)	.	*23.4*	*24.6*	*22.1*	*22.4*	20.4
Unemployment						
Unemployment rate (registered unemployment)	22.0	18.0	13.0	12.0	*14.9*	*17.8*
Registered unemployment (in 1000), end of period	301.0	262.0	171.0	158.0	193.5	235.0
March	*454.7*	*267.2*	*264.2*	*164.9*	*165.1*	*210.1*
June	*427.6*	*261.3*	*253.6*	*162.4*	*175.1*	*219.3*
September	*396.1*	*260.8*	*181.6*	*162.0*	*190.4*	*228.7*
December	*301.0*	*262.0*	*171.0*	*158.0*	*193.5*	*235.0*
Annual change in %	*-23.6*	-13.0	-34.7	-7.6	22.5	21.4
female in % of unemployment	*46.8*	*46.1*	*46.7*	*44.3*	*43.2*	*45.9*
Macroeconomic Indicators						
GDP - current prices in ECU bn	1.1	1.6	1.9	2.1	.	.
real annual change in %	9.6	8.3	13.3	9.1	*-7.0*	.
per capita in ECU. EU (15) = 100	*2.1*	*3.1*	*3.3*	*3.6*	.	.
Current account in % of GDP	1.1	-2.2	-0.6	-4.0	*-8.6*	.
Consumer prices. annual change in %	85.0	22.5	7.8	12.6	*33.2*	*20.6*
Industrial output, real change in %	14.0	-35.2	.	.	.	.

FYR of Macedonia	1993	1994	1995	1996	1997	1998
Population						
Population, end of period (in 1000)	1,937.0	1,957.0	1,975.0	1,991.0	.	.
Net migration - crude rate (per 1000 inhabitants)	-68.3	1.4	0.9	0.6	0.5	.
Natural increase - crude rate (per 1000 inhabitants)	8.1	9.1	8.0	7.7	6.4	.
Population of working age (15-64), in % of total	.	66.7	66.8	66.9	.	.
Female in % of working age population	.	49.9	49.8	49.8	.	.
Population 0-14 years in % of total	.	25.0	24.7	24.3	.	.
Population 65 years and more in % of total	.	8.3	8.5	8.7	.	.
Employment						
LFS - Labour force (in 1000)	.	.	.	*789.1*	*800.5*	*823.8*
Activity rate (labour force in % of working age pop., 15+)	.	.	.	54.9	53.7	.
Total employment (LFS, in 1000)	.	.	.	*537.6*	*512.3*	*539.8*
Employment rate (working age population 15-64)	.	.	.	*40,6*	.	.
Annual change in employment in %	.	.	.	.	*-4.7*	*5.4*
Female in % of total employment	.	.	.	*36.6*	*38.8*	.
Employment in agriculture (in % of total employment)	.	.	.	*18.6*	*18.5*	.
Industry (in %)	.	.	.	*28.9*	*27.4*	.
Services (in %)	.	.	.	*52.5*	*54.1*	.
Unemployment						
LFS - Unemployment (in 1000)	.	.	.	*251.5*	*288.2*	*284.3*
Annual change in %	.	.	.	.	.	.
LFS - Unemployment rate (unemployed % of labour force)	.	.	.	31.9	*36.0*	*34.5*
LFS - Structure of unemployment - in % of unemployment						
Aged 15-24	.	.	.	*37.5*	*35.1*	.
Aged 25-54	.	.	.	*60.4*	*62.7*	.
Aged 55+	.	.	.	*2.1*	*2.2*	.
female	.	.	.	*44.5*	*43.9*	.
Registered unemployment (in 1000), end of period	*177.2*	*196.3*	*229.0*	*245.1*	*257.7*	.
March	.	*180.6*	*206.5*	*233.9*	*249.9*	.
June	.	*184.8*	*217.5*	*237.3*	*252.1*	.
September	.	*188.8*	*223.6*	*239.3*	*255.8*	.
December	*177.2*	*196.3*	*229.0*	*245.1*	*257.7*	.
Annual change in %	.	*10.8*	*16.6*	*7.1*	*5.1*	
Macroeconomic Indicators						
GDP - current prices in ECU bn	*2.4*	2.9	3.4	3.5	*3.3*	*3.2*
real annual change in %	*-9.1*	*-1.8*	*-1.2*	*0.8*	*1.5*	*2.9*
per capita in ECU, EU (15) = 100	7.0	9.0	10.0	10.0	9.0	*8.0*
Current account in % of GDP	0.5	-4.6	-4.8	*-6.5*	*-7.4*	*-8.2*
Retail prices, annual change in %	362.0	128.3	15.7	2.3	4.4	*0.8*
Industrial output, real change in %	-13.9	-10.5	-10.7	3.0	1.6	*5.5*

Abbreviations and Methodological Notes

Abbreviations

Countries

CE Central and Eastern Europe

AL Albania

BG Bulgaria

CZ Czech Republic

EE Estonia

HU Hungary

LT Lithuania

LV Latvia

MK Former Yugoslav Republic of Macedonia

PL Poland

RO Romania

SI Slovenia

SK Slovakia

CIS Commonwealth of Independent States

FSU Former Soviet Union

Index

CPI Consumer Price Index

ECU European Currency Unit

FDI Foreign Direct Investment

GDP Gross Domestic Product

PPS Purchasing Power Standards

Organisations

CMEA Council for Mutual Economic Assistance

CEFTA Central European Free Trade Agreement

EBRD European Bank for Reconstruction and Development

ILO International Labour Organisation

IMF International Monetary Fund

WTO World Trade Organisation

Standardisation

ICLS International Conference of Labour Statisticians

ISCED International Standard Classification of Education

ISCO International Standard Classification of Occupations

NACE Nomenclature general des activités economiques dans les Communeautés Européennes

NACE - Statistical Classification of Economic Activities

Economic activities are classified according to the NACE which has been is in use obligatory from since 1993 onwards. The following table shows the classification of activities which constitute forms the three main aggregates used in this report, i.e. agriculture, industry and services.

Activities	Codification and Description
Agriculture	A 01-02 - Agriculture, hunting, forestry , B 05 - Fishing
Industry	C 10-14 - Mining and quarrying, D 15-37 - Manufacturing, E 40-41 - Electricity, gas and water supply, F 45 - Construction
Services	G 50-52 - Wholesale and retail trade, repairs, H 55 - Hotels and restaurants, I 60-64 - Transport, storage and communication, J 65-67 - Financial intermediation, K 70-74 - Real estate, renting and business activities, L 75 - Public administration, M 80 - Education, N 85 - Health and social work, O 90-93 - Other community, social and personal services, P 95 - Private households with employees, Q 99 - Extra-territorial organisations

Please note: As far as the average employment by LFS and unemployment by ILO methodology are concerned, the notes refer to the data which are printed in normal type in the annex. F*igures printed in italic type* are derived from other sources (see in the section below on the statistical annex).

Average Employment by LFS (Labour Force Survey) using NACE

CZ Data refer to employment in the civil sector and includes all employed persons. The annex already includes the recently recalculated time- series (according to the ILO methodology and calendar quarters).

EE Data presented in the tables for the years 1993-1997 are retrospectively collected annual average data. Data for the year 1998 are reference week data referring to the 2nd quarter of 1998. For the years 1993-1996 data refer are to about the population aged 15-69, since 1997 to the about population aged 15-74.

HU LFS monitors only person's aged 15-74. Since 1998, the conception of the Hungarian labour statistics changed; according to the international recommendations, persons on child-care leave are not included in the scope of employed persons (the economic activity and unemployment rates were

recalculated accordingly to it). Due to the enlargement of the LFS sample, the data for 1998 are not comparable with those for the preceding years.

LT Due to the fact that LFS are not carried out periodically, the indicator has been estimated from the number of employed, which was calculated on the base of reports provided by enterprises and organisations. Residents of 16 years of age and older are considered as those of the working age. Residents of 14 years of age and older are interviewed in labour force surveys. LFS data refer to September 1994-1997 and May 1998. Those in the compulsory military service are not included in the category ‚employed'. Data onfor ‚employed' and 'unemployed' include persons from 14 years of age and older. Data covers all enterprises and other organisations (private and public sector).

LV Enterprises and other organisations under all kinds of ownership. The data cover all budgetary organisations. Persons in compulsory military service and employees on child-care are excluded.

SK Since the first quarter of 1997, the conscripts on compulsory military service have been are included in the LFS. Persons on additional maternity (parental) leave were included among in the employed until 1996.

Average employment by other sources

AL The sources for As far as the employment in the public sector, private sectors (agriculture and non-agriculture) and armed forces is concerned the sources are administrative records.

BG Annual data only (comprehensive survey, covers all employees in public and private sector). The national branch industry classification is different from the NACE classification; therefore the data beforeprevious to 1997 are estimated data. Since 1997, the Bulgarian NSI converts the data toit to NACE.

MK All enterprises and other legal entities under public, mixed, co-operative, private and state ownership. Employees at the Ministry of Defence and Ministry of Interior are not included. (The coverage of private enterprises is very low).

RO Employment comprises all personspeople aged 15 years and over, who have carried out an economic or social activity producing goods or services, with a duration of 1 hour at least (for self-employed and unpaid family workers infrom agriculture, the minimum duration is 15 hours) during the reference period (one week), with a view to achieve certain incomes in the form of salaries, in kind remuneration or other benefits.

SK Average numbers in physical persons, including small tradesmen and their employees, excluding women on maternity leave and armed forces.

Sources

HU, PL, RO, SI, SK Cestat Statistical Bulletin, 1998q2 Nov 1998

CZ National Statistical Office, May 1999

AL, BG, EE, LT, LV, MK Questionnaire, National Statistical Offices, Jan 1999

Unemployment by ILO Methodology (LFS)

AL Total labour force is not derived from a LFS, but from *aAdministrative records*. It covers total employment and total registered unemployment. the pPopulation of working age is the population aged 15+.

BG The data are for September 1993, October 1994, October 1995 and as of from 1996 onwards for November.

CZ The annex already includes the recently recalculated time- series (according to the ILO methodology and calendar quarters).

EE Cf. notes on average employment

HU Cf. notes on average employment

LT Cf. notes on average employment

LV Data from the LFS of November 1995 monitors the population aged 15-69. Data from the LFS of May and November 1996 monitors the population aged 15 years and over. LFS excludes persons on compulsory military service and persons living in non-private households. Employees on maternity leave and child-care up until 3 months are included. Data for 1995, 1996 and 1997 refer to November 1995, November 1996 and November 1997.

MK LFS monitors person's aged 15-80 and excludes members of the armed forces

RO LFS excludes persons living in non-private households (so-called institutional population).

SI LFS excludes persons in compulsory military service and persons living in non-private households (so-called institutional population). Workers on lay-off and persons on maternity leave are classified among persons in employment. Till the 1st quarter of 1997, LFS was an annual survey, from the 2nd quarter of 1997 onwards it has beenis a quarterly survey.

SK For practical reasons, the quarters do not correspond to calendar ones, but they are shifted one month ahead. The unemployment rate is recalculated on economically active persons (excluding persons on additional maternity (parental) leave, including the conscripts on compulsory military service).

Sources:

HU, PL, RO, SI, SK Cestat Statistical Bulletin, 1998q2 Nov 1998

CZ National Statistical Office, May 1999

AL, BG, EE, LT, LV, MK Questionnaire, National Statistical Offices, Jan 1999

Gross Domestic Product (GDP)

GDP is calculated in accordance with a system of national accounts which means in the case of EU Member States in the European system of integrated economic accounts (ESA). This system consists of a coherent set of detailed tables and accounts which reveal various aggregates. These aggregates are essential indicators for macro-economic analysis and economic policy. GDP, and especially GDP per capitahead, is one of the main indicators for economic analysis and for comparisons both in time (assessment of growth) and space (international comparison of a country's production capacity).

In order to overcome difficulties related to the comparability of GDPs in a transnational comparison, calculations are based on a theoretical conversion rate which is the purchasing power parity (PPP). PPP calculations are based on major price surveys covering a basket of goods and services which are both comparable and representative for the countries included in the comparison. The amounts obtained using this rate are called purchasing power standards (PPS). In 1993, all countries covered by this review with the exception of Albania and the FYR of Macedonia participated in the European Comparison Programme for the first time. In 1996 they were involved for a second time.

Statistical Annex

In general all figures printed in normal type in the annex are derived from official Eurostat sources, i.e. New Cronos and official Eurostat publications. *Figures printed in italic type* are derived from other sources, mainly collected by WIIW.

In the case of population data these are official papers published by the Central Statistical Offices, such as Statistical Yearbooks, reports or bulletins. In the case of additionally provided LFS data it has to be stressed that in many countries special reports on the LFS are published.

As far as the macroeconomic indicators are concerned, data referring to unit labour costs as well as FDI inflow are derived entirely from WIIW sources, which rely on different national reports (e.g. from privatisation agencies or national banks) or IMF reports etc. The same applies to the other macro-economic indicators, i.e. the supplements made in order to complete time- series. These supplements are also derived from such sources.

In the case of Hungary, Lithuania, Romania and Slovenia (1997) data for the employment by economic sectors are presented without decimal figures due to the quality of the available basic data.

The LFS data on the structure of the unemployment, which concern the previous occupation according to economic sectors, refer to those persons who have had a jobs before becoming unemployed.

BG The data by ILO methodology are for September 1993, October 1994, October 1995 and as of 1996 for November

EE LFS data were only available until the second quarter of 1998 for the unemployment in 1000 as well as for the unemployment rate

LV LFS total employment is not the annual average, but the fourth quarter; the same applies to LFS unemployment in 1000, surveys are held in May and November, the data refer to the November survey.

MK LFS data refer to April, figures for the registered unemployment refer to the end of the period

PL Figures for FDI inflow in the period between1993 and 1996 refer to projects over USD 1 million capital invested

European Commission

Central European Countries' Employment and Labour Market Review

No 1, July 1999

Luxembourg: Office for Official Publication of the European Communities

1999 - 64 pp. - 21 x 29.7 cm

This publication covers the ten Central European Candidate Countries, Albania and the FYR of Macedonia. Each of the twelve countries is presented briefly by its main economic features as well as the most important labour market developments. A comperative overview of the national labour market and key indicators by countries provided in the statistical annex give a comprehensive pricture of the development of the Central European Countries' Labour markets since 1993.

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